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# USSR Report

ECONOMIC AFFAIRS

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2 April 1986

**USSR REPORT  
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**CONTENTS**

**ECONOMIC POLICY, ORGANIZATION, AND MANAGEMENT**

- Gosplan Official on New Experiment-Inspired Management Methods  
(V.A. Rzheshevskiy; DENGI I KREDIT, No 11, Nov 85)..... 1

- Gosplan Official Views Future Economic Growth, Restructuring  
(M. Sidorov; EKONOMICHESKAYA GAZETA, No 2, Jan 86)..... 13

**INVESTMENT, PRICES, BUDGET, AND FINANCE**

- Economists Detail Price Setting Methodologies  
(EKONOMIKA SOVETSKOY UKRAINY, No 9, Sep 85)..... 19

- Price Setting and Evaluation of New Technology Effectiveness, by L. Shevchenko ..... 19  
Limit Price Level Substantiated, by V. Pinzenik ..... 29

- Projected, Past National Income Growth Examined  
(EKONOMICHESKAYA GAZETA, No 47, Nov 85)..... 36

- Statute on Normative Method of Profit Distribution  
(EKONOMICHESKAYA GAZETA, No 2, Jan 86)..... 43

**RESOURCE UTILIZATION AND SUPPLY**

- New Instructions for Implementing Supply Contracts in 12th FYP  
(G. Shapkina; KHOZYAYSTVO I PRAVO, No 11, Nov 85)..... 51

ECONOMIC POLICY, ORGANIZATION AND MANAGEMENT

GOSPLAN OFFICIAL ON NEW EXPERIMENT-INSPIRED MANAGEMENT METHODS

Moscow DENG I KREDIT in Russian No 11, Nov 85 pp 33-39

[Article by V. A. Rzheshhevskiy, deputy chief of the division for improving planning and economic incentives of the USSR Gosplan: "From the Experiment to Extensive Dissemination of New Management Methods"]

[Text] In keeping with the measures that were developed for expanding the rights of associations and enterprises in planning and management activity, increasing their responsibility for the results of their work and conducting the corresponding economic experiment, in 1984 700 enterprises of five industrial ministries were changed over to new conditions for management. In 1985 20 more industrial ministries began to work under these same conditions.

As we know, the main tasks of the experiment are:

to strengthen the role of associations and enterprises in the development of plans in all stages of planning and to increase their responsibility for ensuring that the products they produce satisfy the needs of the national economy and the population;

to increase the significance of economic normatives as an important lever by which the five-year plan can influence the economic activity of the associations and enterprises. The application of these normatives is intended to stimulate better utilization of all kinds of resources and at the same time to guarantee the enterprises stable conditions for management whereby the amounts of the funds for wages and social development will be made directly dependent on the final results of their work;

to increase the motivation of the labor collectives to work with fewer workers, to save on material and financial resources and in all ways to strengthen the principles of cost accounting [khozraschet];

to expand the rights and opportunities of associations and enterprises to raise the technical level of production using their own "earned" funds and to accelerate scientific and technical progress.

An analysis of the report figures for 1984, local inspections and materials from the ministries show that the complex of measures for increasing the

independence and responsibility of production associations and enterprises for the results of their work has exerted a positive influence on their economic activity. The basic indicators of the work of enterprises participating in the experiment have improved. In 1984 delivery discipline increased significantly. All ministries participating in the experiment overfulfilled their assignments for increasing labor productivity, they achieved all of their increase in output as a result of this growth, and they overfulfilled their assignments concerning production costs and profit.

In the area of planning and evaluation of the activity of the enterprises the number of established indicators was reduced (for example, assignments are no longer set for the number of workers, the reduction of manual labor or the absolute wage fund; the number of financial indicators has decreased, and so forth), earlier deadlines have been introduced for submitting control figures and indicators, and a limited group of assignments and indicators have been established from which the activity of the labor collectives is evaluated.

The situation has improved with respect to the fulfillment of the indicators of deliveries under agreements, which is extremely important for proportionally balanced development of the national economy. Three out of five ministries--the Ukrainian SSR Ministry of the Food Industry, the Belorussian SSR Ministry of Light Industry and the Lithuanian SSR Ministry of Local Industry--in 1984 were the first to achieve complete fulfillment of deliveries by all enterprises. In the Ministry of Heavy Machine Building and the Ministry of the Electrical Equipment Industry the number of enterprises fulfilling the indicator of deliveries by 100 percent doubled as compared to 1983 and the volume of shortages in the delivery of products as compared to 1983 decreased to one-sixth in the Ministry of Heavy Machine Building and to one-third in the Ministry of the Electrical Equipment Industry.

These results were conditioned to a decisive degree by a number of factors.

In the first place a clear-cut economic demand was made on the enterprises--to fulfill deliveries by 100 percent, that is, completely, without any deviations, and at the same time effective material incentives were introduced for meeting this demand.

It is known that when they fulfill orders completely and on time the enterprises participating in the experiment can increase their material incentive fund by 15 percent, and when these orders are not fulfilled they lose 3 percent of this fund for each percentage point of underfulfillment instead of 1 percent as was the case before the experiment. Moreover, as experience has shown, as the work improves the material incentives do not decrease, since the enterprises that fulfill their orders completely do not wish to fail in their deliveries even by 1 percent because this would lead to a loss of about 20 percent of their bonus fund.

The motivation to provide the consumers with the products they need relies also on the new bonus system which was introduced into the experiment whereby more than half of the entire sum of bonuses paid for the results of economic activity depend on the fulfillment of delivery indicators.

In the second place, the extension of the period of work on the plan had an essential influence on the fulfillment of this indicator.

The USSR Gosplan and the USSR Gossnab have taken measures to inform the enterprises participating in the experiment earlier than usual of the projections of the main planning indicators and limits. This has increased their participation in the development of the draft of the plan for 1984. Thus in the preplanning period enterprises of the Ukrainian SSR Ministry of the Food Industry made proposals to increase the production volume by 320 million rubles. Proposals to increase the production volume and improve quality indicators came from enterprises of other ministries participating in the experiment as well.

This positive stride in the improvement of planning was developed further. The draft of the plan for 1985, for example, was submitted to associations and enterprises of the Ministry of Heavy Industry and the Ministry of the Electrical Equipment Industry in July-August, which made it possible for the enterprises to prepare promptly for production and to begin the contract campaign at earlier dates. In order to create the necessary conditions for the development of the draft of the plan for 1986 the control figures and economic normatives were submitted to the ministries in May 1985.

Finally, the third and perhaps the main thing. The transformation of the indicator of the volume of product sales, taking deliveries into account, into the main indicator for evaluating the activity of the enterprises determined the need to restructure all intraplant planning and management in the direction of producing the developed list of products envisioned by the contracts. The labor collectives began to pay more attention to improving the structure of production management and product sales and to improving the system of operational-calendar planning so that the assignments for the shops, sections and individual brigades provided for priority fulfillment of orders from consumers.

The intraplant organization of material incentives and socialist competition served this same goal to a considerable degree.

The active participation of the entire labor collective--and not just individual services, as was previously the case--in the observance of schedules for the output of parts and components and the creation of the necessary stockpiles of batching items for improving the fulfillment of contractual commitments became an important positive feature of the work of enterprises participating in the experiment.

Thus during the course of the experiment they managed in fact to increase the motivation and responsibility of the associations and enterprises to satisfy the needs of the national economy and the population for the products they produced. This is an important positive result of the measures taken recently to improve the economic mechanism.

Another success of the experiment is the greater motivation of the enterprises to increase labor productivity and to work with fewer personnel. All ministries participating in the experiment, as was noted, overfulfilled their

assignments for increasing labor productivity and achieved the entire increase in the output of products as a result of increased labor productivity and working with fewer personnel than envisioned in the plan and fewer than were used in the previous year.

The decisive conditions were the application of stable economic normatives and the expansion of the rights of the enterprises in using the savings from wages.

Economic normatives play a dual role: being an instrument of planned management they provide for observance of the economic proportions stipulated for the five-year period under the changing conditions of the annual plans, and being an instrument for stimulation the normatives establish a direct dependency between the funds received by the labor collectives for wages, social development and technical reequipment, on the one hand, and the final results of their work, on the other.

The necessary prerequisites have been created for them to play this role. The wage fund is determined by the enterprises independently according to stable normatives, and all the savings remain at their disposal and can be used to establish additional payments and increments for high-quality, highly productive labor.

It is precisely this new approach to the determination of the amounts and the utilization of the wage fund that created at the enterprises an atmosphere of striving to "earn" the fund and to reduce the number of workers. Under these conditions there was considerable development of brigade forms of organization of labor and wages, the practice of combining occupations expanded, and losses of working time decreased.

Thus at the enterprises there was a considerable increase in the number of brigades of a new type which work under a unified contract with payment according to the final results of their labor. For example, in the Ministry of Heavy Machine Building in 1984 up to 76 percent of the workers were included in brigades, and the number of workers in brigades with payment according to the final results almost doubled--from 37.5 percent to 69.5 percent of the overall number of workers in brigades. In the Ukrainian SSR Ministry of the Food Industry 84.6 percent of the workers were employed in brigades with payment according to the final results. At enterprises of the Lithuanian SSR Ministry of Local Industry no less than 75 percent of the workers in the branch were employed in the new type of brigade.

A significant step was taken in expanding the practice of combining occupations. In the Ministry of Heavy Machine Building 42,000 workers receive additional payments for combining occupations; in the Belorussian SSR Ministry of Light Industry 2,100 people were released because of combining occupations and the number of workers in combined occupations increased by 30 percent during the year.

The growth of labor productivity as a result of these and other factors made it possible for the ministries participating in the experiment even in the first year to work with less than the planned number of workers and less than

the number employed in 1983. Thus at enterprises of the Ministry of the Electrical Equipment Industry in 1984 there were 7,200 fewer people working than was envisioned by the plan and there were also less than were working in 1983. In the Ukrainian SSR Ministry of the Food Industry the number of workers was 1,700 less than planned, and the number had decreased by 2,800 as compared to 1983. Other ministries were working under similar conditions.

The fulfillment and overfulfillment of the plan for production of products with a reduction of the number of workers made it possible to save on the wage fund, part of which the enterprises used in keeping with the rights they had been granted to establish additional payments for combining occupations and increments for labor productivity. Wages increased for those workers who increased their contribution to the overall results and took over the duties of the workers and employees who had been released. Moreover the growth of labor productivity outstripped the growth of the average wages.

For a total of five ministries during 1984, according to USSR Gosbank figures, after the payment of all additional payments and increments, the savings on the wage fund amounted to 27 million rubles and everywhere except for the sugar and oil and fat industry of the Ukrainian SSR Ministry of the Food Industry there was a reduction of the amount of wages paid per ruble's worth of products produced. For all ministries participating in the experiment losses of working time were reduced by 15-25 percent and in the majority of ministries labor turnover decreased and norm setting for labor improved.

The application of stable economic normatives for the formation of incentive funds for the associations and enterprises exerts a positive influence on their motivation to increase labor productivity, reduce production costs and increase profit.

Thus under the conditions of the experiment practical steps were taken to ensure the economic interest of the labor collectives in improving the results of their work and also improving distribution relations: the labor collectives that achieve high final results have the advantage.

Under the new conditions for management there has been a positive perception of the course toward increasing the role of the fund for the development of production. It is known that in order to expand the rights and capabilities of the enterprises in providing for a high technical level of production and implementing measures for technical reequipment with their own funds, under the conditions of the experiment the role of the fund for the development of production as an economic incentive fund has been restored. The enterprises and associations can use it independently and the amounts of the fund have been made more strongly dependent on the growth of profit.

Expenditures on technical reequipment of enterprises and associations from the fund for the development of production are now made as a part of state capital investments along with centrally established limits and they are singled out on a separate line of the plan as noncentralized capital investments.

In the experiment the enterprises are permitted to use USSR Gosbank credit in excess of the limit for centralized capital investments in order to finance

technical reequipment of production, and they can also use for this purpose part of the amortization deductions intended for capital repair.

Part of the unified fund for the development of science and technology is also left at the disposal of the enterprises and associations (previously all of it was allotted to the ministries) and this can be used at their discretion. This enables the enterprises to take the initiative in introducing new technical equipment bought with their own funds.

The aforementioned measures have increased the motivation of the enterprises to "earn" and intelligently utilize their own funds for technical reequipment. This was reflected in 1984 in the fairly high assimilation of the limit of noncentralized capital investments in five ministries: the Ministry of Heavy Machine Building and the Ministry of the Electrical Equipment Industry--at the level of 90 percent, the Belorussian SSR Ministry of Light Industry--116 percent, and the Ukrainian SSR Ministry of the Food Industry and the Lithuanian SSR Ministry of Local Industry--100 percent.

The fund for the development of production was utilized especially effectively at enterprises that produce consumer goods. In the Belorussian SSR as a result of technical reequipment they saved the labor of more than 3,500 workers, obtained more than 70 percent of the increase in productivity and provided for a reduction of production costs of 9 million rubles. In the Ukrainian SSR Ministry of the Food Industry as a result of these factors they released 4,400 people and reduced production costs by 22.6 million rubles. In 1984 this ministry used noncentralized capital investments to introduce fixed capital valued at 43 million rubles (123 percent of the plan) which will provide for the output of an additional 30 million rubles' worth of products in retail prices. Expenditures on technical reequipment and reconstruction in the Ukrainian SSR Ministry of the Food Industry in 1984 comprised more than half of the overall sum of capital investments.

While noting a certain positive influence of the restoration of the role of the fund for the development of production on the improvement of technical reequipment, at the same time one must state that there has been no general improvement of the situation in capital construction yet. On the whole for the five ministries participating in the economic experiment the limit of state capital investments was used by 85 percent in 1984, which is worse than in 1983 when the limit was assimilated by 91 percent. Nor have there been any essential positive changes in the structure of capital investments in the direction of increasing the share of technical reequipment and reconstruction in the overall volume (except for the Ukrainian SSR Ministry of the Food Industry).

At enterprises participating in the experiment there have been certain achievements in improving the quality of products, assimilating new kinds of items, and increasing the production of consumer goods. Thus in the Belorussian SSR Ministry of Light Industry the output of products with the Emblem of Quality increased by 18 percent, those with the mark "N" (innovation)--by 39 percent, and fashionable items delivered to trade at contract prices--2.5-fold. In the Ministry of Heavy Machine Building in 1984 184 new items were assimilated as against 82 in 1983 and 57 outdated machines

were removed from production. In 1984 in keeping with the new policy certification was introduced for 168 machines, of which 157 were included in the highest category, including 34 which are of great national economic significance.

Still it must be noted that during the course of the experiment we have not yet provided for the proper level of work for accelerating development, assimilating and introducing new technical equipment and technology, and there are still various limitations and impediments in the utilization of the fund for the development of production. There are also other imperfections.

In the area of technical development of the enterprises it is important to reinforce the positive strides that have been achieved and to refine existing instructions and provisions so that the enterprises will have guaranteed opportunities to use the money they have earned independently for technical reequipment of production. We also need additional measures to increase the effect of the economic mechanism on the acceleration of scientific and technical progress.

Taking into account the fact that the economic experiment for expanding the rights of industrial production associations (enterprises) in planning and economic activity and increasing their responsibility for the results of their work has proved its viability and the great possibilities of improving the results of the work of labor collectives, increasing the output of necessary products and increasing the effectiveness of production, the CPSU Central Committee and the USSR Council of Ministers in July 1985 adopted the decree "On Extensive Application of New Management Methods and Their Increased Influence on the Acceleration of Scientific and Technical Progress."

This decree extends the conditions of the economic experiment to associations and enterprises of a considerable group of branches of industry and enterprises and organizations of transportation, communications and a number of other branches of the national economy.

First of all a changeover is being completed so that the new way of working will extend to associations and enterprises of those branches where the experiment has already been started, the necessary experience has been accumulated, and the corresponding methodological and normative documents and provisions have been created and developed. These are the branches of machine building, ferrous metallurgy, and light, the food, fishing and local industry. In 1986 a changeover of all consumer service enterprises to the new way of work will be completed.

Second, those branches where the work is significantly specific in nature will be changed over to the new conditions of management: associations and enterprises of the USSR Ministry of Nonferrous Metallurgy, the USSR Ministry of the Chemical Industry, Ministry of Mineral Fertilizer Production, Ministry of the Medical Industry, Goskomizdat and a number of other ministries, and also individual production associations (enterprises) of the USSR Ministry of the Coal Industry, Ministry of the Petrochemical Industry, Ministry of the Pulp and Paper Industry and Ministry of the Meat and Dairy Industry.

Third, beginning in 1986 transportation and communications enterprises will be changed over to the new conditions for management. These include enterprises and organizations of the USSR Ministry of the Maritime Fleet and Ministry of Communications, the Kazakh SSR Ministry of Automotive Transportation, the RSFSR Ministry of the River Fleet, the Main Automotive Transportation Administration of the Moscow Gorispolkom and individual enterprises and organizations of the RSFSR Ministry of Railways and Ministry of Automotive Transportation.

A total of about 50 percent of the workers in industry, a considerable number of workers in all kinds of transportation and practically all workers in communications and consumer services will be working under the new conditions in 1986. The completion of the changeover of all industry to the new conditions of management is envisioned for 1987.

Thus the system of measures for expanding the rights and increasing the responsibility of enterprises for the results of their work, which was introduced in 1984 as an experiment, under the new five-year plan will become the main system of management in industry and other branches of the sphere of material production. This will make it possible to increase the return from the existing potential and to create favorable conditions for solving the problems of the 12th Five-Year Plan--reaching a radical turning point in the growth of the effectiveness and decisively changing the national economy over to the intensive path of development.

Along with the dissemination of the new methods of management that have proved themselves, significant measures have been developed for increasing the influence of the management mechanism on the acceleration of scientific and technical progress and the intensification of production.

It is envisioned that the indicators of the acceleration of scientific and technical progress should be an organic part of all sections of the state plan and become the basis of it with the idea of providing for a changeover to principally new technical equipment and technological systems in order to achieve the greatest effectiveness of production and to reequip all branches of the national economy. Moreover the USSR Gosplan has been instructed to inform the ministries and the councils of ministers of the union republics of the assignments for producing products and the funds for material and technical resources at earlier dates, which will contribute to ensuring prompt preparation for the production of new technical equipment and the introduction of progressive technology.

Measures have been earmarked for further developing cost accounting [khozraschet] and increasing the role of economic normatives and levers in planning and regulation of the activity of labor collectives. Thus prices will play a stronger role in updating products, raising the technical level and improving quality. To accomplish this a price increment to the wholesale price in an amount of up to 30 percent of the economic effectiveness is established for products certified in the highest quality category, and this increment stays in effect as long as the products are at the world level and are certified for the highest quality category.

In order to create economic conditions which would make the output of outdated and ineffective products disadvantageous and lead to a worsening of the final indicators of the operation of the enterprise, the policy for applying rebates to prices is to become stricter. It has been established that beginning in 1986 when a product is certified for the first quality category a rebate in the amount of 5 percent is immediately established for it and this rebate increases by 5 percent each year after that. If in subsequent certification the product is not included in the highest quality category it should be removed from production. This policy applies not only to newly assimilated products but also to those that have been produced for some time.

There is reason to expect that this will be an effective measure which will exert an influence on updating products and improving their quality beginning in the very first year of the five-year plan. Thus it is known that the majority of items are certified once every three or four years. Consequently in the next year approximately one-fourth of the products can be included in the first quality category. In this case the losses for the enterprises which do not pay the proper attention to raising the technical level of the items they produce, as a result of this rebate, will be up to 1.5 percent of the annual volume of sales of products and about 5-7 percent of the profit as compared to the plan since rebates are not taken into account in the plan.

The aforementioned losses cannot seriously affect the course of production but they are felt strongly enough when cost accounting funds are calculated, including funds for bonuses for workers of the management staffs of the enterprises and associations.

The influence of price setting on the expansion of product exports is becoming stronger. Incentive increments are established for products delivered for export, depending on their effectiveness. The enterprises are being given more extensive rights and greater responsibility for the utilization of deductions in foreign currency which comes in for the delivery of products for export. It is recommended that these deductions be used mainly to conduct measures for perfecting production, improving quality and increasing the ability of the products to compete; for strengthening and developing the scientific and technical base for production; and also for rendering assistance to therapeutic and preventive medical institutions of the enterprises; and for encouraging associated enterprises to develop and deliver batching items and parts.

Additional measures have been taken to expand the possibilities of the associations and enterprises in the area of technical reequipment of production using their own funds to increase their responsibility for maintaining a high technical level of production and of the products that are produced. Measures have also been earmarked which will make it possible to raise to a new level the independence and responsibility of the enterprises in the development of production as a result of the funds they have "earned." We are speaking about measures which provide for the implementation, in the form of an experiment, of the entire process of production and its technical reequipment on the basis of self-payment by such large associations and AvtoVAZ of the Ministry of the Automotive Industry and imeni M. V. Frunze in the city of Sumy of the Ministry of Chemical Machine Building.

The following are envisioned: to ensure a high technical level and high quality of products that are produced; to steadily improve the technical equipment and production technology as a result of effective utilization of internal funds; to expand the independence of the enterprises in forming, under the supervision of the consumers, a detailed production program on the basis of planned assignments according to a consolidated products list, direct long-term economic ties and long-term economic agreements; to deliver the amount of funds obtained by the labor collective for wages and improvement of social conditions for labor and life according to previously established normatives, depending on the final results of the economic activity; to provide financing for capital investments and a higher normative of circulating capital through internal funds and bank credit; to make full reimbursement for losses caused because of violation of the conditions of economic agreements; and to improve price setting with subsequent reflection of the consumer qualities and product effectiveness in the prices.

Work under cost accounting conditions for reproduction comprehensively replaces a multitude of complicated specialized systems which are being applied today for each factor in increased effectiveness individually and makes all of the collective's possibilities dependent on the final results. But this effective management method cannot be spread to a considerable number of associations and enterprises immediately because of at least two reasons.

First, the changeover of large associations to self-repayment requires turning over to them, as a rule, the entire sum of amortization deductions for renovation. In industry as a whole these funds exceed the amounts of the current development fund 6-7-fold and at the present time are being used as a source of financing the construction of facilities that have already been started.

Second, not all of the production associations (enterprises) can efficiently assimilate the resources that are allotted to them since they are not developing uniformly. Some enterprises--new or recently constructed ones--have modern equipment and therefore they are not in need of significant amounts of money for technical reequipment while others, on the contrary, have been in operation for a long time, have become outdated and require significant restructuring, and, finally, still others are in a transitional stage between the first and second groups. Here one should take into account that the updating of technical equipment and technology always proceeds along two paths: the evolutionary one, whereby the equipment is replaced gradually, and the revolutionary one, when the introduction of principally new technical equipment and technology requires a radical restructuring of the entire enterprise or at least a significant part of it. Consequently, the mechanism for the formation and utilization of the development fund should take this lack of uniformity into account.

In industry as a whole at the present time planned expenditures on technical reequipment are approximately twice the amount of the development fund. Obviously it would be expedient to gradually increase the amount of money in the production development fund for technical reequipment, with the intention if increasing its proportion of the overall expenditures to 70-80 percent.

In the near future a most important condition for increasing the effectiveness of the production development fund, and on the basis of this the entire economic mechanism, is guaranteed provision of this fund with materials and equipment.

To this end the decree of the CPSU Central Committee and the USSR Council of Ministers of 12 July 1985 established that the development of plans for material and technical supply by the USSR Gosplan, the USSR Gossnab, the ministries, departments and other organizations which distribute material and technical resources will be to begin with an initial consideration and complete satisfaction of the demand for work for technical reequipment using money from the production development fund. The need for equipment and other material resources for new construction will be considered only after filling orders from enterprises for the aforementioned resources for technical reequipment of existing production.

Beginning in 1987 it is intended to change over to satisfying the needs for material and technical resources (with the exception of name-brand and imported goods) for work conducted by the internal method with money from this fund directly through the USSR Gossnab territorial agencies on orders from production associations (enterprises) in keeping with planning estimates. The USSR Gossnab has been instructed to determine through its territorial agencies the need for equipment and material resources for the indicated work and, at the appointed times, to deliver this information to the USSR Gosplan which should allot the necessary material resources to the USSR Gossnab.

The same policy is envisioned for organizing material and technical support for construction of facilities for nonproduction purposes which is carried out with money from the fund for social and cultural measures and housing construction. At the same time the policy for filling out documentation for conducting measures financed by these funds will be simplified considerably.

Thus it has been established that the drafts of the plans for technical reequipment of enterprises, planning estimates and title lists for measures implemented with money from the production development fund and credit are developed and approved independently by the production associations (enterprises) for the five-year period.

The policy for initiating financing for work financed through the development fund has also been simplified. In order to finance measures for technical reequipment using money from this fund the enterprises must submit to the corresponding bank institutions a copy of the plan for technical reequipment which they have developed for the planned year as well as approved estimates for individual kinds of work and expenditures, and when credit is received they must also submit calculations of the economic effectiveness of the earmarked measures.

A number of new provisions are also being introduced for increasing the material incentives of labor collectives. In order to concentrate funds on stimulation of scientific and technical progress, taking into account the experience that has been accumulated, it has been recognized as expedient to

create in the associations and enterprises a unified material incentive fund which includes all the incentive funds except for the wage fund.

The fund for social and cultural measures and housing construction is also playing a larger role in solving problems of the social development of the labor collectives. We have in mind the fact that under the 12th Five-Year Plan, as the necessary prerequisites are created, the money from this fund should become for the existing enterprises and organizations operating under the new management conditions one of the main sources for financing the construction and maintenance of residential buildings, children's institutions, dispensaries, pioneer camps and other facilities for nonproduction purposes. It is envisioned that the centralized sources of financing for the construction of facilities for nonproduction purposes will be allotted in the plans of the ministries and departments, as a rule, only for satisfying the needs of labor collectives of enterprises that have recently been put into operation and (where necessary) enterprises that are being expanded.

The funds for social and cultural measures of the associations and enterprises are to be increased within the limits of the overall sum of allocations for these purposes which are to be acquired as a result of a corresponding reduction of centralized sources.

Measures for further deepening and development of the economic experiment are directed toward enlarging the role of centralized planning in increasing production effectiveness while simultaneously increasing the independence and responsibility of the enterprises for the results of their work. These measures should be regarded as the first stage in the creation of an integrated system of management of the national economy which encompasses in an organic unity the improvement of planning, strengthening of the effectiveness of economic levers and stimuli, and improvement of the organizational structure of management.

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## ECONOMIC POLICY, ORGANIZATION AND MANAGEMENT

### GOSPLAN OFFICIAL VIEWS FUTURE ECONOMIC GROWTH, RESTRUCTURING:

Moscow EKONOMICHESKAYA GAZETA in Russian No 2, Jan 86 p 2

[Article by M. Sidorov, department head, USSR State Planning Committee's Economics Scientific Research Institute, under the rubric "Economic Review": "Efficiency, Rates, Structure"]

[Text] Growth rates, structural reforms, production efficiency.... These concepts are used widely in economic practice and economic science. But today they are replete with new content, and the approach to their evaluation is changing substantially. A growing and ever more complicated interrelation of economic growth rates, structural reforms in the national economy and efficiency in the use of both the accumulated production potential and resources additionally being involved in production marks the modern stage in the country's economic and social development.

#### Sources and Factors of Growth

Of all the characteristics of the forthcoming 15-year period, the most important is growth acceleration. Just what kinds of sources and factors must be brought into play in order to support this acceleration? They are revealed in the draft of Basic Directions.

They are, first of all, fuller realization of the advantages of the planned management system, and better melding of centralized decisions with the economic independence of enterprises. Second--Transition to the intensive development path. And this presupposes drastic improvement in the use of production potential already created and substantial acceleration of scientific and technical progress.

Only three quantitative national economic indices are named in pre-Congress documents for the period 1986-2000: A virtual doubling of the national income, with a 2-fold increase in production potential and a 2.3-2.5-fold increase in national labor productivity. Such an approach, wherein the requisite efficiency level in using resources is considered most important, also is characteristic of the party's modern economic strategy. Achievement of its program objectives, first of all in the area of improving the people's well-being, dictates high growth rates in production efficiency. This means more rapid growth in production's end results in comparison to expenditures for production. Acceleration of the national income's growth rates characterizes, therefore, the underlying economic content of the modern economic policy.

The factors and sources of acceleration compel us to view the economic processes taking place, and their evaluation, in a new way. Let us take labor resources for example. Arguments about a so-called shortage in labor resources, which already have become traditional, are very convenient for justifying inadequate management efficiency.

But the task lies precisely, not in seeking additional arguments for inactivity, but in solving the problem; solving it on the basis of production's comprehensive mechanization and automation, evaluation and modernization of jobs, and rapid increase in workers' qualifications.

Another example of the new approach and new view of growth sources and factors is the matter of capital investments. The material basis of increase in labor productivity is increase in the capital-labor ratio. And the latter's growth is linked directly to the dynamics of capital investment, to efficiency in the economy's investment sphere.

Experience in our country's economic development shows: Growth rates in national income and labor productivity are higher when growth rates also are high in that part of production's capital investments which is brought about in technologically progressive form. And economic development is slowed with decrease in the growth rates of such investments. It would be incorrect to assume that increasing the efficiency of every ruble of capital investments can compensate, without limit, for reduction in their growth rates.

Up to certain limits, yes. But, in order to bring about qualitative technological transformations in the national economy's sectors rapidly, it is necessary to have large quantities of investment resources. Just such a change in investment policy is envisaged in the forthcoming period.

The argument sometimes is encountered that, on the scales of an entire national production under conditions of rapid growth rates, it is hard to carry out modernization of the created production apparatus. It is difficult, when so doing, to increase the quality of products and diversify their assortment. In our view, contrasting rates and quality is a consequence of an inertia in economic thinking which developed under the conditions of the largely extensive [ekstensivnyy] type of expanded, revitalized production [rasshirennnoye vosproizvodstvo].

With transition to intensification, such economic development goals are not contradictory, but mutually supplement each other.

The basis for growth in production's efficiency is its thorough intensification and the qualitative improvement of all production elements. This, in its turn, presupposes tying the latter's volumes to structural reforms and the realization of achievements in scientific and technical progress.

### Growth of Efficiency--The Basic Condition

Along with growth of the capital-labor ratio, another basic factor in increasing labor productivity is the increase in pay for labor in close relationship to growth in its results. The effectiveness of scientific and technical progress depends, to a substantial extent, upon where young people will go to work.

For solving this problem, it is planned, specifically, to carry out a number of measures to increase the pay and improve the working conditions of engineering and technical workers. The prestigiousness of specialists' work must be increased. The task is set to improve the job structure and pay of scientific research institute workers as well as designers and technologists at enterprises.

Economizing of resources is becoming a basic source of production growth. In the period to the year 2000, the task is set to provide for 75-80 percent of the increase in requirements for fuel, power, materials and raw materials by economizing.

For the first time in the practice of economic construction in our country, all growth in national income during the 12th 5-Year Plan will be obtained by increasing labor productivity. No less than two-thirds of its growth is to be provided by using the achievements of science and technology.

The economic meaning of increasing growth rates is fuller satisfaction of the society's production and nonproduction needs. The task is set to reduce the volumes of construction starts and unfinished construction to a normative level, and substantially reduce the stocks of uninstalled equipment.

Acceleration of the economy's growth rates must be accomplished while increasing the share of high-quality products in the make-up of consumption and savings funds and widening the variety of food and nonfood commodities. This will permit fuller satisfaction of the national economy's and population's needs.

Substantial improvement in the qualitative characteristics of products being turned out is viewed, in the draft of Basic Directions, as an integral part of accelerating the country's socio-economic development, and an important factor in the economy's intensification. In the 12th 5-Year Plan, it will be necessary to increase the share of products in the highest quality category 1.9- to 2.1-fold, increase the reliability and operating lives of equipment, and improve the quality and broaden the assortment of consumer goods.

### Structural Reforms

The economy's shift onto the intensification track demands serious structural changes and the conducting of an aggressive structural policy. Certain of its directions may be singled out. These are, first, a significant increase in the share of capital investments for technical re-equipment and reconstruction

of enterprises--up to 50 percent in the 12th 5-Year Plan; second, the creation and widespread application of resource-saving equipment and technologies; and, third, strengthening the establishment of priorities in developing the national economy's separate sectors and progressive industries within the sectors' purview.

The core of the modern structural policy--This is qualitative reform of the created production potential.

For this, the production-revitalizing structure of capital investments is being changed radically. In the expiring 5-Year Plan, for all practical purposes, only 20 percent of production's capital investments was expended on compensation for retirement and replacement of fixed production assets. The remaining part of the investments went to increase the quantity of the assets. Now, technical re-equipping of production is receiving priority in capital construction. As early as 1986, according to the plan, retirement of obsolete assets is to be increased 1.7-fold in comparison to average annual retirement in the 11th 5-Year Plan. It is intended to direct 31 percent of the overall input of fixed production capital into the replacement of retirements.

Thus, the structural policy's efficiency will be determined by the speed and degree of the matching of changes in priority directions of scientific and technical progress to changes in the structure of capital investments and the make-up of products being turned out.

#### Intersector Proportions

Strengthening the economizing regimen, and creating and using resource-saving equipment and technology will make it possible to change the proportion of the mining and processing sectors. By the end of the 15-year period, according to calculations of the Economics Scientific Research Institute under the USSR Gosplan [State Planning Committee], the processing sector's share, as is apparent from the diagram, will account for 93-94 percent of industrial production volume, as opposed to 92 percent in 1985.

The carrying out of large structural reforms in abbreviated time periods is evidence of the planned socialist economy's advantages. Only under its conditions do ways become apparent for large-scale manipulations in the allocation and reallocation of resources among the separate sectors and economic regions.

Of course, the manipulation of resources has to be supported by organizational and economic work. Increase in the share of resources being directed into one or another sector leads to the intended structural reforms when substantial increase in the efficiency of using the resources also is achieved at the same time.

The envisaged rapid growth in productivity, economizing of labor resources, and increase in the efficiency of producing means of production will create, on the whole, the realistic preconditions for accelerating production of con-

consummer goods. In the 12th 5-Year Plan, therefore, outstripping growth is planned in the production of consumer goods (group "B") in industry--by 22-25 percent--in comparison to the increase in means of production (group "A")--by 20-23 percent. The calculations made at the NIEI [Economics Scientific Research Institute] under the USSR Gosplan show that group "B" will account for 36-37 percent of industrial production by the year 2000 (See diagram).

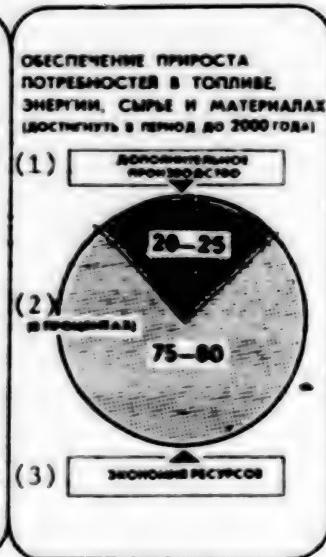
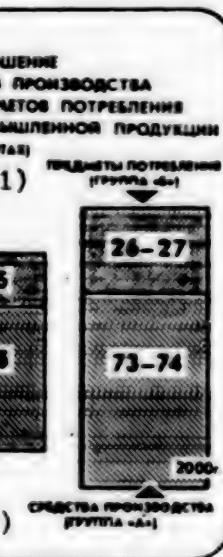


Diagram 1

Diagram 2

Diagram 3

**Diagram 1. Proportions of the Processing and Mining-Extraction Sectors in Industry**

**Key:**

1. Share in overall volume of production (in percentages)
2. Mining-extraction sectors
3. Processing sectors

**Diagram 2. Proportions of Means of Production and Consumer Goods in Industrial Production (in Percentages)**

**Key:**

1. Consumer goods (group "B")
2. Means of production (group "A")

**Diagram 3. Providing for Growth in Requirements for Fuel, Power, Raw Materials and Materials (To be Achieved in the Period to the Year 2000)**

**Key:**

1. Additional production
2. In percentages
3. Economizing of resources

The growing effect of the structural factor upon efficiency and rates in national production is not limited to intersectoral proportions. It is characteristic for all the economy's spheres. The significance of the structural correspondence between labor resources and producer goods, for example, is increasing. The mechanization and automation of production, and the elimination of unprestigious, unattractive jobs--these are a substantial reform in the national economy, ensuring its balanced and efficient development.

The economy's structural rebuilding, under conditions of its thorough intensification, is linked to the solution of complicated economic problems. Thus, the problem of the optimum allocation of capital investments as production and nonproduction remains acute. The share of nonproduction capital investments in the overall volume of capital investments was reduced during the last 15 years. The percentage of fixed nonproduction capital in the overall volume of capital also was lowered, from 38.2 percent in 1970 to 33 percent in 1984. Such factors as inefficient orientation upon stepped-up growth in fixed production capital, with slower development of the social welfare [sotsialno-bytovaya] infrastructure, and an insufficiently high level of efficiency for newly introduced fixed production capital were apparent here. The main point is that possibilities for growth in capital investments of nonproduction character will increase with increase in the efficiency of national production.

Substantial changes in the economy, reconstruction of the production structure, fundamental renovation of assets, acceleration of scientific and technical progress, and bringing production proportions into line with modern productive forces require a certain amount of time. It would be economic romanticism to suppose that, in a highly developed economy, with its most complicated interrelations, the transition to a qualitatively new type of revitalized production could be carried out instantaneously. But neither is it permissible to procrastinate in solving the urgent economic problems.

Maximum use of all the possibilities for economic development connected with bringing about good order and strengthening good organization and the economizing regimen has paramount importance. At the same time, the future of development must be plainly apparent, and the specific paths leading to it clear, in every sector of the national economy.

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INVESTMENT, PRICES, BUDGET AND FINANCE

ECONOMISTS DETAIL PRICE SETTING METHODOLOGIES

Price Setting and Evaluation of New Technology Effectiveness

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[Article by L. Shevchenko, candidate in economic sciences: "Basic Methodological Principles of Price Formation and Evaluation of Effectiveness of New Technology"]

[Text] The conference held at the CPSU Central Committee on questions of accelerating scientific-technical progress (1985) noted the need for "radically improving price formation so that it would facilitate the successful realization of the economic policy and the fastest possible introduction of all that is new and leading."<sup>1</sup> Increasing the stimulating role of wholesale prices in developing a new and highly effective technology is associated with the achievement of a relative price reduction for technology and a reduction in the cost per unit of useful effect of new types of machines and equipment.

In order for the relative price reduction of technology to become not only possible, but also planned, we must know the required and at the same time the real measure of reduction in expenditures and prices per unit of useful effect. The coefficient of relative price reduction shows the degree of reduction in expenditures (price) for new technology as compared with the growth of useful effect. If we designate the price of a new product as  $\Pi_2$ , for the base product as  $\Pi_0$ , the coefficient of growth in useful effect as  $\Pi_1$ , and the coefficient of relative price reduction as  $B$ , then we may write  $B = \frac{\Pi_2}{\Pi_0 \cdot \Pi_1}$ , while the condition for reduction in expenditures per useful effect would be  $\Pi_2 < \Pi_0 \cdot \Pi_1 \cdot B$ .

By analyzing the dynamics of prices and useful effect (the coefficient of relative price reduction), we may determine how it has influenced the level of the effectiveness coefficient. We may also use the reverse connection: on the basis of a given effectiveness coefficient we may determine the necessary measure of reduction in price per unit of useful effect of a new product as compared with the base product. If the task consisted only of ensuring equal profitability (equal effectiveness) of the new and base technology, then the computed coefficient of effectiveness for the new technology must be higher than the (base) level for the value of possible losses and deviations occurring in the course of assimilation of the new product in the sphere of application.

Due to the effect of the law of continued growth in labor productivity (or reduction in total expenditures for production), the new technology in the sphere of consumption must ensure, as a minimum, the achievement of planned (given for the long term) growth rates in labor productivity (reduction in expenditures). Moreover, it must ensure (by means of obtaining additional profit) the possibility of growth of the economic incentive funds.

The very fact of the presence of an economic effect is not yet sufficient to draw the conclusion as to the degree of effectiveness of the new technology. Ensuring the standard coefficient of effectiveness ( $E_H$ ) corresponds to the achievement of the lower limits of effectiveness, and only exceeding the effectiveness coefficient above the norm by a certain (necessary) value will make it possible to categorize the new technology as being highly effective. We may specify and compute this necessary measure of growth in new technology as compared with the norm if we proceed from the assumption that new technology in the sphere of application will ensure the growth rate in labor productivity specified for the future (reduction in production cost of manufactured product by application of the new technology), the increase in material incentive funds, and the reimbursement of possible losses in profit.

According to our calculations, in machine tool building the effectiveness indicator of new technology (E) necessary for satisfying the presented requirement must be 30-90 percent higher than the standard level. For subsequent computations, two values have been taken as the quantitative measure of the necessary growth in effectiveness of the new technology:  $E-E_H = 0.10; 0.15$ , i.e., levels above the average have been selected. Such an approach to "overestimating" the measure of necessary growth in effectiveness of new technology over the norm stems from a comparison of the computed and actual values of economic effect. The quantitative values of the coefficient of effectiveness for new technology which we have adopted and which make it possible to categorize it as being highly effective, undoubtedly cannot be considered undisputed and acceptable for all cases of introduction of new technology. The presented levels of the effectiveness coefficient are the result of one of the possible variants of quantitative specification of requirements for growth in the effectiveness of new technology as compared with the base technology.

After determining the necessary measure of growth in the effectiveness of the new technology as compared with the base technology and utilizing the functional dependence between the indicator of effectiveness and the price, we may determine the price level which, if not exceeded, will serve as a prerequisite for growth in the effectiveness of the new technology, as it will contain a lower level of expenditures per unit of useful effect than the price for the base technology. Based on the computation of this price level, we may also determine the values of the coefficient of price reduction per unit of useful effect. For this we should compare the computed price level ensuring fulfillment of the conditions of growth in effectiveness of the new technology in the sphere of application with that level of price of new technology which will correspond to the normative (base) level of effectiveness. This shows what the maximally possible price may be if it increases in comparison with the price for the base technology in proportion to the growth in useful effect and without reduction of the specific expenditures for achieving it.

The coefficient of relative price reduction computed in this manner depends primarily on the adopted level of the effectiveness coefficient for the new technology and on the structure of the useful effect. Thus, specifically, the higher the relative share of savings on operational outlays at the maximal price level (the price level which has increased in comparison with the price for the base technology proportionally to the increase in useful effect--  
 $\frac{B_2}{B_1} \cdot \frac{H_2 - H_1}{H_1}$ ), the lower the coefficient of relative price reduction must be (B). The relative share of savings on the operational outlays ( $M_{ya}$ ) may be determined as follows:  $M_{ya} = \frac{H_2 - H_1}{B_2 \cdot \frac{H_2 - H_1}{H_1 + H_2}}$ . And, using formula (3) of the effective methodology for determining wholesale prices,<sup>2</sup> the value of the relative share of savings on operational outlays may also be written in expanded form as:

$$M_{ya} = \frac{\frac{H_2 - H_1}{H_1 + H_2}}{\frac{B_2}{B_1} \cdot \frac{\frac{1}{T_2} + 1 \cdot \alpha}{\frac{1}{T_1} + 1 \cdot \alpha}} = \frac{H_2 - H_1}{B_2 \cdot \frac{\frac{1}{T_2} + 1 \cdot \alpha}{\frac{1}{T_1} + 1 \cdot \alpha}}$$

where  $H_1$  is the wholesale price of the base product;  $B_2$  is the coefficient for computing the growth in productivity per unit of new product as compared with the base.

$\alpha$  is the coefficient considering the change in the service life of the new product as compared with the base;  $T_1$ ,  $T_2$  are the annual operational outlays of the consumer in his application of the base and the new products computed per annual volume of production (work) produced with the aid of the new product ( $H_1$ ,  $H_2$ ,  $M_{ya}$ ).

In studying the regularities and tendencies of change in the amount of savings on the operational outlays characterized by different levels of technical-economic parameters, we determined that theoretically the value of the relative share of savings ( $M_{ya}$ ) may be within the margins of from 0.015 to 0.35. However, if we abstract from the values of individual amounts (and their combinations) which are practically not encountered or rarely encountered in the process of assimilation of new technology, then the interval of real values of the relative share of savings may be reduced to 0.03-0.23 (and for certain spheres of application it will be even more narrow). Also, it is not identical for all indicators of the service life of the new technology.

The coefficient of relative cost reduction also depends on the service life of the technology and will be reduced with increase of this time. However, with increase in the relative share of value  $\frac{H_2 - H_1}{B_2}$  it increases. On the whole, the coefficient of relative cost reduction may fluctuate from 0.6 to 0.95, i.e., in order to ensure the required increase in the effectiveness of the new technology, the expenditures (price) per unit of increase in useful effect ( $H_2$ ) must be reduced as compared with the base within the limits of 5 to 40 percent. Such a fluctuation in the coefficient of relative cost reduction is explained primarily by the influence of the structure of useful effect. Thus, for example, with an identical service life of new technology (12 years) and a relative share of savings on operational outlays of  $M_{ya} = 0.05$  and 0.12, in order to ensure a growth in the effectiveness indicator by 0.15 as compared with the standard ( $E - E_H = 0.15$ ), the coefficient of relative cost reduction must be set at the level of 0.92 and 0.8 respectively.

The presence of different types of connections between the level of the relative cost reduction coefficient, the structure of useful effect, and the levels of their component elements, as well as the rather large interval of their possible values, do not allow us to select some single (average) level.

The computation of the effect of useful effect structure may be performed by two means: by setting several (2-3) coefficients of relative cost reduction for different structural elements of useful effect, or by establishing a common coefficient of relative cost reduction which is differentiated depending on the adopted effectiveness coefficient, service life of the technology, and relative share of savings on operational outlays. We selected the second means: the computation of differentiated values for the coefficients of relative cost reduction. The differentiated coefficients of cost reduction ( $B$ ) are used to control limit prices  $\Pi_1 \Pi_2 \Pi_3$  ( $\Pi_k$  is the coefficient of increase in useful effect). As the computations have shown, the relative share of savings on operational outlays ( $W_{12}$ ) has the greatest influence on the level of the price reduction coefficient. Thus, with invariable levels of the effectiveness coefficient and service life of the technology, but with an increasing relative share of savings from 0.05 to 0.30, the coefficient of relative cost reduction drops from 0.9 (0.95) to 0.6 (0.7).

The presence of a mutual connection between the level of the relative cost reduction coefficient ( $B$ ) and the relative share of savings on operational outlays makes it possible to utilize this connection for solving one of the most important problems in control of effectiveness and substantiation of wholesale prices--preventing the overestimation of computed level of economic effect. For this purpose, we may set lower levels of coefficient  $B$  with overestimated (higher than the real level) values of relative share of savings on operational outlays, (for example, starting with value  $W_{12} = 0.19$ ).

By comparing our obtained values of the cost reduction coefficient with the coefficients of relative cost reduction adopted by the Methodology for Determining Wholesale Prices, we see, first of all, the coincidence in the tendencies of change in the coefficients depending on the structure of useful effect. Secondly, we see the necessity for differentiating the levels of the coefficient depending on the relative share of savings on the operational outlays. With a relative share of savings ( $W_{12}$ ) greater than 0.18, the coefficient of relative cost reduction for ensuring the necessary growth in effectiveness of new technology in application and prevention of overestimated computed values of economic effect and limit price must be lower than that provided in the methodology. To achieve this, the coefficient of relative cost reduction applicable to the value of savings on operational outlays (denominator in formula (3) of the Methodology) with its relative share equal to 0.19-0.30 should be set at a level of 0.85, and with its relative share above 0.30--at a level of 0.8 (instead of the accepted 0.9). The consideration of the change in accompanying capital expenditures by the consumer in computing the economic (useful) effect would also lead to the need for reducing (with increase in these expenditures) the coefficient of relative cost reduction. The possibility and necessity of clarifying the coefficients of relative cost reduction is provided in the Methodology.

Thus, we have established the fact that the reduction in price per unit of useful effect realized by the application of the coefficient of relative cost reduction to control the justification of the limit price is a condition for growth in the effectiveness of new technology. However, this condition will be fulfilled if the price at which the consumer acquires the new technology—the acquisition price—does not exceed the limit price (whose level entails the required reduction in expenditures).

Achieving a definite reduction in expenditures per unit of useful effect (on the basis of using the coefficient of cost reduction) makes it possible to categorize the new technology in question as being highly effective. In this case, in accordance with the effective statute, an incentive mark-up ( $\mu_m$ ) will be established over the wholesale price ( $P_w$ ) for the new technology, and as a result the price level at which the consumer will acquire the technology will be determined as  $P_w + \mu_m$  ( $P_w$  is the wholesale price of the new product with standard profit). It is specifically by this relation to this level that the condition of non-exceedance must be fulfilled, i.e., the condition that the acquisition price ( $P_a$ ), and this means also the limit price ( $P_l$ ) must not exceed the amount of the wholesale price with the incentive mark-up. Disregarding this condition or applying it only at the level of the wholesale price leads to the situation whereby the coefficient of relative cost reduction is not maintained. This means a non-fulfillment of the requirement which we have presented for given growth in the effectiveness of new technology, i.e., a reduction in the coefficient as compared with those previously computed.

Increasing the wholesale price by the sum of the incentive mark-up as compared with the limit price is equivalent to reducing the effectiveness indicator of the new technology. In essence, this may neutralize the effect of the cost reduction coefficient intended to control the price level per unit of useful effect. With significant amounts of incentive mark-ups (for example, when their amount reaches up to 30 percent of the wholesale price) and with application of the cost reduction coefficient of over 0.77 to control the limit price, the consumer will receive technology whose (acquisition) price will correspond to the expenditures (price) spent on obtaining the useful effect with application of the base product, or will even exceed these expenditures. In order to prevent the development of this situation, we must present the condition for establishing the incentive mark-up to the wholesale price:  $P_w + \mu_m \leq P_l$ .

In order to fulfill this condition, it will be necessary to limit primarily the level of expenditures (production cost). If we write the condition which we have presented by expressing the wholesale price and the incentive mark-up with the aid of production cost and standard of profitability computed for the production cost ( $P_H$ ), then we will obtain:

$$\frac{P_w}{P_H} (1 + \mu_m + \mu_m \cdot \mu_H) \leq 1$$

where  $\mu_m$  is the incentive mark-up in portions of the sectorial standard of profitability. Stemming from this is the limitation for the level of production cost of new technology:  $\frac{P_w}{P_H} \leq \frac{1}{1 + \mu_m + \mu_m \cdot \mu_H}$

In order for the level of production cost taken as the base for the wholesale price not to exceed the value presented in the right side of the inequality

(equation), it is necessary to control the level of expenditures (production cost), and to do so already at the design stage. Therefore, the limitation in the level of production cost of new technology should extend to the production cost limit ( ). However, at the design stage, we do not have data on the level of the incentive mark-up. In this case, to determine the production cost limit we may use the average value of the incentive mark-up over the wholesale prices for analogous types of products, or the computed additional profit (incentive mark-up) necessary for economic stimulation of the producer.

According to our computations, the amount of incentive mark-up necessary to ensure funds for economic stimulation may comprise 55-58 percent of the sectorial standard of profitability ( $P_n = 0.55-0.58$ ). We must point out the fact that the computed level of the incentive mark-up necessary for economic stimulation is used not for acceptance of its level, but primarily for computation of the production cost limit. Secondly, it is used for comparison with the actual mark-up level (determined subsequently according to a scale) for the purpose of evaluating the effects on the economic interests of the producer and orienting him toward obtaining an incentive mark-up no lower than that which is necessary.

Thus, we may conclude that the determination of the incentive mark-up is possible with additional reduction in expenditures (price) for a unit of useful effect as compared with that which was adopted in the substantiation of the limit price. This in turn will lead to a further increase in the effectiveness of the new technology in its sphere of application. In order to achieve a further growth in the effectiveness indicator in the sphere of application as compared with those which we have adopted in our computations, for example by 0.1 point, an additional price reduction may be required (as compared with the limit level) in an amount ranging from 3 to 10 percent.

The condition of the wholesale price with the incentive mark-up not exceeding the level of the limit price presents certain requirements for the principles of stimulating the producer of the new technology (the principles of setting the incentive mark-up). However, before presenting these principles, let us examine the effective order of determining incentive mark-ups.

For the purpose of increasing the role of wholesale prices in increasing the output of technology of a high technical-economic level and quality, the resolution of the CPSU Central Committee and the USSR Council of Ministers entitled "On Measures for Accelerating Scientific-Technical Progress in the National Economy" (1983) provided for establishing incentive mark-ups in the amount of up to 30 percent (in individual cases over 30 percent) of wholesale prices for new highly effective technology. In accordance with the supplement to the Methodology for Determining Wholesale Prices which was developed and approved, the incentive mark-up is determined in the amount of 50 percent (in individual cases up to 70 percent) of the annual economic effect from the production and application of the new technology in the national economy. The condition for obtaining this mark-up is the presence of an economic effect in an amount no less than 15 percent of the wholesale price.

The minimal amount of the incentive mark-up equal to half of the annual economic effect may comprise 7.5 percent of the wholesale price. This, depending on the level of the profitability standard, will correspond to from 30 to 60 percent of the standard profit. The maximal amount has two limitations: 1) the difference between the cost of new ( $\Pi_n$ ) and base ( $\Pi_b$ ) production with consideration for growth of the basic technical-economic parameter of the new product (productivity) and the savings on operational outlays of the consumer for one year ( $\Pi_n - \Pi_b$ ); 2) 30 percent of the wholesale price.

However, due to the absence of a specific quantitative interconnection with the level of effectiveness of the production, the minimal amount of the incentive mark-up may in some cases turn out to be unjustifiably overestimated, and in others--underestimated. It is quite evident that the actual amount of the incentive mark-up will, as a result of the effect of the first limitation, often not be equal to half of the annual economic effect. It may even drop to 0, which in essence will determine the interval of fluctuation of part of the economic effect directed to the producer from 0 to 50 percent. Its average level will comprise approximately 15-20 percent of the economic effect.

In establishing mark-ups to wholesale prices for insufficiently effective production, the price level with incentive mark-up may exceed the value of the limit price. As a result of this, the expenditures per unit of useful effect will turn out to be higher than those envisioned in the substantiation of the limit price. Moreover, we must note the fact that the maximal amount of the incentive mark-up (30 percent of the wholesale price) may be set when the value of the first limitation reaches this level. This is realistic only with a definite structure of useful effect (and specifically with a large relative share of savings on operational outlays) and a high ratio of economic effect to wholesale price.

We must also note that under the established order of determining incentive mark-ups--the absence of comparison with the standard level of profits--it is difficult to compare them with the levels computed in accordance with the previously effective method.<sup>3</sup> This complicates the evaluation of the effect of the new statute on economic stimulation for creation of new highly effective products of a production-technical function.

An analysis of the principles utilized for determining incentive mark-ups, as well as the mutual connection which we have determined between economic stimulation of the producer of new technology and the condition of growth in effectiveness in the sphere of application have allowed us to formulate initial requirements for plotting a scale of incentive mark-ups. The scale of incentive mark-ups must be plotted in such a way that its effect is tied with a guarantee of growth in the effectiveness of new production in its sphere of application. In other words, a condition for stimulating the producer, or a condition for obtaining the incentive mark-up is a definite level of effectiveness of the new production in its sphere of application.

Based on the facts presented, the principles of plotting a scale of incentive mark-ups must, in our opinion, include the following initial moments: 1) the base of the scale of incentive mark-ups must fix the presented condition of growth in the effectiveness of the technology in its sphere of application (Начало II.); 2) the growth in the amount of the incentive mark-up must be associated with the growth in the effectiveness of the new technology without disruption of the presented requirement.

The base for this scale, which meets this requirement, may be the relation of limit and wholesale price, with an initial value of this ratio greater than one. According to the scale, the incentive mark-up grows as this ratio increases, not exceeding the difference between the limit and wholesale price. The growth of the incentive mark-up in this case will depend on an additional reduction in expenditures per unit of useful effect as compared with that adopted in substantiating the limit price. In this case, the amount of the incentive mark-up will depend on the ultimate economic result--the additional reduction in expenditures per unit of useful effect, creating the conditions for further increasing effectiveness in the sphere of application. The amount of the incentive mark-up may be determined in percentage points of the standard profit and in percentages of the wholesale price.

The marginal value of the incentive mark-up in this case is the difference between the limit and wholesale prices. Without disrupting the principle of cost accounting stimulation and the condition of growth in effectiveness of new technology in the sphere of application (expressed as the wholesale price plus incentive mark-up not exceeding the limit price), the incentive mark-up must already be set with a ratio of limit and wholesale prices equal to 1.01. Its possible amount in this case will comprise 6 percent of the standard profit. At a ratio of 1.16, its amount may reach 100 percent of the standard profit. With a high level of effectiveness of new technology (additional reduction in price per unit of useful effect) and adherence to the requirement of the incentive mark-up's not exceeding the difference between the limit and wholesale prices, the amount of the incentive mark-up may reach 2-3 times the standard profit and may comprise 30 percent or more of the wholesale price.

Considering the tendency towards growth in the level of the incentive mark-up with increased ratio of limit and wholesale prices, and also based on the expedient limitation of its maximal level of 30 percent of the wholesale price, we may plot scales which will differ in their growth rates and level of initial and final values.

An identical amount of incentive mark-up in percentage of the wholesale price will not be identical in regard to the standard profit. This calls for a different approach to their computation for types of production with different standard profits. The solution of this problem may proceed in different directions: the development of a unified standard scale for the average standard level (for example, with  $P_H = 0.18$ ); the development of several types of scales by standard levels or the development of one scale with the application of corrective coefficients; or the development of a scale with determination of the incentive mark-up in percentages of the wholesale price. We performed studies on all these directions.

In plotting a specific type of scale, it is necessary to consider not only the level of the standard scale, but also the specific types of new technology which must be stimulated in greatest measure. For example, control must be exercised to see that a high mark-up is not set for wholesale prices on types of production with an excess level of technical parameters which may be fully realized only within limited spheres of application, while the volume of production exceeds the needs for these limited spheres.

Scales plotted according to a unified principle may be distinguished by their characteristics of changing the level of mark-ups depending on changes in the base of the scale. Thus, for example, we may develop such a scale variant in which the level of the mark-up will increase proportionately with the growth in the base of the scale with retention of a uniform growth rate for every point. We may also envision a scale variant in which the growth rate for each point of the base of the scale will increase or decrease with the growth in the base of the scale. In this case, the maximal amount of the incentive mark-up may correspond to the ultimate value of the base of the scale. However, we may also envision achieving this level beyond the limits of the scale values, i.e., provide for the possibility of increasing the mark-up with further growth in the relation of the limit and wholesale prices, which is not fixed by the scale.

The selection of one scale variant or another may be determined by the level of standard profit, as well as by the need for stimulating in greater measure the economically expedient development of various types of technology. Here we must note that the scales of incentive mark-ups determined in percentages of the wholesale price must be combined, in our opinion, with mark-up scales computed in percentages of standard profits. Thus, adhering to the unified principle in plotting the scale for incentive mark-ups does not limit the possibility of their differentiation depending on the technical-economic description of the product.

Having defined the relation between limit and wholesale price as the base for the scale, we must note that this expression of a base for the incentive mark-up scale is not the only one possible. Based on this relation, we may define the indicator for additional expenditure reduction as compared with the one adopted in substantiating the limit price. It will be equal to:  $(\frac{P_w}{P_l}) - 100$

(in percentages). Based on the interconnection between the presented rendition of the scale base and the one previously examined, the incentive mark-up scale plotted on the basis of the relation of limit and wholesale prices may be transformed, plotting the level of the mark-up in accordance with the additional reduction in expenditures per unit of growth of useful effect as compared with that adopted in substantiating the limit price. In this case, the level of the incentive mark-up remains the same, and only the order of its computation changes.

The advantage of this type of scale consists of the fact that the amount of the incentive mark-up, or the stimulation of the producer of the new product is realized in this case for the end result--the reduction in price for unit of growth of useful effect. At the same time, this creates a guarantee of further increase in the effectiveness of the new production in the sphere of application.

We must also examine how the distribution of economic effect between the producer and consumer of the new technology (whose computation is based on the level of wholesale price  $\Pi_w$ ) will be implemented in determining the amounts of the incentive mark-ups by the examined methods. The distribution of economic effect will depend, first of all, on the adopted coefficient of cost reduction, and secondly on the amounts of the incentive mark-up in percentages of the standard profit and the standard profit itself. Thus, the decline in the cost reduction coefficient by one-tenth of a point may lead to a change in the relative share of the portion of economic effect directed to the producer in the form of an incentive mark-up from 1 to 5 percent. The effect of the amount of the incentive mark-up itself will be more significant and, for example, with a cost reduction coefficient of 0.8 and a standard profitability of 0.18, the relative share of the portion of economic effect forthcoming as the incentive mark-up may fluctuate from 2 to 21 percent. On the whole, with different values of the cost reduction coefficient and the standard of profitability, this fluctuation may comprise from 1 to 26 percent of the economic effect.

However, the fact that the incentive mark-up may comprise from 1 to 26 percent of the economic effect still does not mean that the producer will obtain additional profit in this amount to be used directly for his needs. Part of this profit will go into the budget (according to the effective statute this is about 15 percent). The portion of the economic effect remaining after setting the incentive mark-up (from 74 to 99 percent) also does not go in its entirety to the consumer of the technology. In accordance with the effective statute, a significant portion of the additional profit realized due to reduction in the production cost of the product as a result of the application of new technology is directed to the budget. Therefore, the very formulation of the question on distributing the economic effect from application of new technology between the producer and the consumer with the aid of pricing does not entirely correspond to the real situation, since a third participant is included in the distribution. This is the budget or the national economy as a whole.

The effective statute also provides for establishing a discount from wholesale prices in the amount of up to 30 percent for industrial products subject to removal from production. Setting discounts from wholesale prices is directed at eliminating interest in the production of outdated products and stimulating the timely transition to the output of new types of technology.

The problem of establishing a discount is in essence the problem of reflecting the obsolescence of the technology in the wholesale prices. To reflect the effect of obsolescence of the first type in practical application, a corrective coefficient is usually used which is determined on the basis of the dynamics of production expenditures in the sectors producing similar types of technology. It is more complex to compute the effect of obsolescence of the second type.

The measure of obsolescence of the second type is the relative share of lost portion of cost resulting from the relative drop in the effectiveness of the applied technology. (The relative drop in effectiveness of applied technology is understood to be the conditional decline in its level as compared with the

effectiveness of new technology). As a result of the emergence of new effective technology, the technology currently being used becomes obsolete. Its obsolescence is caused not simply by the fact of the emergence of the new technology, but by the fact that it is more effective than the base technology. We may express the effect of this process on the wholesale price by determining how the price of the old technology must change in order for its application to be comparable in effectiveness with the new technology. For this purpose, the price of the old technology must be corrected by a coefficient which indicates the necessary degree of price reduction in order for the old technology to conditionally achieve the level which corresponds to the effectiveness of application of the new technology. This requirement is met by the coefficient of price reduction per unit of growth in useful effect (the coefficient of cost reduction), since it is specifically this coefficient which indicates the necessary degree of price reduction to ensure growth in the effectiveness of application.

The measure of obsolescence of the second type is determined by the relation to the cost of the old technology, based on the relative growth in the effectiveness of the new technology. The amount of the discount ( $C_k$ ) should be determined on the basis of our adopted (or plan specified) coefficient of expenditure reduction per unit of useful effect ( $B$ ). This may be written as follows:  $C_k = P_1 / (1 + B)$ , where  $P_1$  is the price for this type of production corrected in accordance with the level of expenditures for the period of removal of the product from production (i.e., with consideration for the effect of obsolescence of the first type). In this case, the amount of the discount will depend on the relative decline in the effectiveness of the old technology (the growth in effectiveness of the new technology). Like the coefficient of relative cost reduction, this discount should not be a singular amount, since it may vary within considerable margins and may comprise from 10 to 40 percent of the wholesale price (with significant growth in the effectiveness of the new technology).

In order to establish the discounts to the wholesale price for outdated technology, it is not necessary to have the descriptions of the specific new product at our disposal. In order to compute the coefficient of cost reduction used to determine the discount, we may use the tendency of relations in the effectiveness indicators for base and new analogous types of technology. This allows us to determine the planned amount of the discount at the same time as confirming the wholesale price and the mark-up, which will more greatly facilitate the removal of outdated types of technology from production.

#### Limit Price Level Substantiated

Kiev EKONOMIKA SOVETSKOY UKRAINY in Russian No 9, Sep 85 pp 60-63

[Article by V. Pinzenik, candidate in economic sciences (Izhev): "Substantiating the Level of Limit Prices"]

[Text] The limit price acts as a criterion for evaluating the economic expediency of planning new production with given technical-economic parameters, limiting the growth of expenditures for its manufacture, and ensuring cost reduction per

unit of useful effect. It defines the marginal price level which, if exceeded, entails loss of the economic advantages of the new product in comparison with the one being replaced. The limit price is one of the indicators of the technical task of developing new production, and is defined by the developer in conjunction with the proposed manufacturer.

In accordance with the new "Methodology for Determining Wholesale Prices and Net Production Standards for New Machines, Equipment and Instruments for Production-Technical Application", ratified by resolution of the USSR Goskomtse [State Committee on Prices], the computation of limit prices by planning stages is performed according to the following formula:

$$ll_a = C + ll_s \quad (1)$$

where  $ll_a$  is the limit price,  $C$  is the cost of production by stages of planning, and  $ll_s$  is the standard profit.

The evaluation of production cost is done on the basis of specific indicators of material and labor expenditures, consolidated norms and standards for expenditures by groups of products, and in the case of a high level of product unification--by the aggregate method.

The wholesale price for new production may be approved at a level no higher than the limit price. Consequently, we should consider such a level of limit price to be justified as would ensure a definite economic effect from the application of the new technology in the national economy and its relative cost reduction per unit of ultimate useful effect.

In the new methodology, the question of substantiating the limit price is resolved as follows. The basis for its determination by formula (1) is the expenditure principle, without regard for the formulated level of prices on analogous products with consideration for the changes in the technical-economic parameters of the new production. This facilitates bringing [the new technology] closer to the level of the planned wholesale prices at the stage of formulating the product for production. However, this approach cannot guarantee the consumer any economic advantages from the application of the new technology. In order to ensure these, it becomes necessary to perform additional computations, and to verify the substantiation and acceptability of the limit price level computed on the basis of the proposed level of expenditures. For products with improved basic technical-economic parameters ensuring a savings on outlays by the consumer, this is done according to the following formula:

$$\frac{ll_s}{ll_a - \frac{B_1}{B_2} \cdot \frac{T_1 + E_s}{T_2} + \frac{H_1 - H_2}{T_2}} < 0.85 \quad (2)$$

where  $ll_a$  is the wholesale price of the base product;  $B_1$  and  $B_2$  are the annual volumes of production (work) performed with the application of a unit of the base and new product respectively, expressed in natural units;  $T_1$  and  $T_2$  are the service life of the base and new products respectively, with consideration for obsolescence;  $E_s$  is the standard coefficient of effectiveness; 0.9 and 0.85 are the coefficients of relative cost reduction of the new production which guarantee a reduction in the limit prices per unit of ultimate useful effect.

The previously effective methodologies (1969, 1974) provided for finding the limit price on the basis of its upper margin ( $ll_{us}$ ):

$$ll_s = ll_{us} \cdot B. \quad (3)$$

where  $B$  is the coefficient of cost reduction associated with the reduction in outlays for producing the product as a result of the assimilation of its series output. In most sectors this coefficient is set at a level of 0.8.

Taking into consideration the formula for determining  $ll_{us}$ , the computation of the limit price may be presented as follows (designations are presented in accordance with those presently used):

$$\frac{ll_s}{ll_{us}} = \left( \frac{ll_s \cdot B_s}{ll_s + \frac{1}{T_1 + E_s}} + \frac{ll_s - ll_s}{\frac{1}{T_2} + E_s} \pm \Delta K \right) \quad (4)$$

It is easy to see a certain similarity in the substantiation of the limit price by the old (formula (2)) and new (formula (4)) methodologies. In the effective methodology, the denominator of formula (2) may also be considered a modified form of expression of the upper price margin. In other words, the limit price is substantiated if  $ll_s : ll_{us} \leq 0.85$ .

The previously used computation of the limit price on the basis of its upper margin did not facilitate limiting the growth of expenditures (these expenditures were determined by the limit price and the necessary level of profitability of the new product), and did not guarantee the consumer a price reduction per unit of useful effect. The advantage of the effective methodology is the fact that it presupposes the determination of the limit price level not only in regard to its marginal level, but also in regard to the proposed expenditures for production of the product and for standard profit. At the same time, it does not eliminate one of the major shortcomings of preceding methodologies. This is the fact that when the wholesale price is approved at the level of the limit price, the advantages of consumption of the new product are by far not always ensured.

One of the important prerequisites for the substantiated computation of the limit price is the condition that it is determined by reproduction costs for that period in which the production cost of the new product is being computed in determination of its planned price. In the methodology previously in effect, the price of the base product used as the basis for finding level  $ll_s$  and the price of the new product were not comparable in time. The former was computed based on the production cost of the first year of series (mass) production of the new product, and the second--according to the production cost in the second or third year of manufacture (conclusion of the assimilation period). This is why the upper price limit was adapted to the expenditures for the year of assimilated production of the new product with the aid of the coefficient 0.8. In other words, the limit price computed by formula (4) is the upper margin of the price for the new product in the year that assimilation is completed on its series or mass manufacture. In the case of wholesale prices corresponding to the limit prices, this approach did not ensure any advantages

for the consumer in the application of the new technology. Moreover, as we can see from the computations performed by O. Orlov and Ye. Ryasnykh<sup>4</sup>, for a number of products they even suffered considerable losses. Thus, the incurred expenditures in the operation of the new KShZM coal mining combine comprised 814.85 rubles by its evaluation at the level of the limit price, while in the operation of the base machine they were 577.34 rubles, or a loss of 237.51 rubles computed for one combine.

The basis for computing the limit price in accordance with the presently effective order is not the price of the analog and data on changes in the basic technical-economic parameters of the new product as compared with the one being replaced, but rather the proposed expenditures, which are more precisely defined with the stages of planning. Considering the adopted criterion for verifying the substantiation of limit prices, this practice facilitates a significant reduction in their level. While the preceding methodologies presupposed setting the limit prices at the level of 0.8 of the upper margin in all cases, the criterion used at the present time makes it possible to set their values lower.

We performed computations of limit prices for a series of fork-lift trucks by the new and the old methodology. Thus, according to the methodology previously in effect, the limit price on model 7806 was equal to 149,100 rubles, and according to the new methodology it was 106,000 rubles, or 71.1 percent of the previous indicator. For other models this relation comprised: model 4018--49.1 percent, and for model 4022M--85.3 percent.

At the same time, the comparison of indicators on the verification of limit price level substantiations by the two methodologies shows that the one presently in effect allows their relatively higher level. It is evident from condition (2) that such a limit price level may also be considered justified which is only 15 percent (previously 20 percent) lower than the upper limit. In this case also the coefficient of 0.85 (as in the old methodology the coefficient of 0.8) cannot perform the function of realizing a specified portion of the economic effect in favor of the consumer. This is determined by the following facts. The wholesale price of the base product is adapted to conditions of the accounting year in which the output of the new product is assimilated. For this purpose, the standard profit is added to the corrected production cost of the base product:

$$C_0^1 = C_0 \frac{1+P}{100+P \cdot T} \quad (5)$$

where  $C_0$  is the production cost of the base product by the plan for the year in which the computation of the limit price is performed;  $C_0^1$  is the anticipated production cost of the base product for the first year of series production of the new product;  $P$  is the average annual rate of reduction of production cost of the base product depending on the duration and series production of the new product;  $T$  is the time period (in years) from the start of planning the new product to the first year of its series output.

Unlike the previously effective methodologies, the new methodology formally adopts the expenditures for the first year of series output as the base for

the wholesale price of the new product. In fact, there have been no changes. The methodology provides for the increased expenditures associated with the preparation and assimilation of production to be reimbursed at the expense of the unified fund for the development of science and technology. For the most important types of products, the sum of increased expenditures subject to reimbursement may be fixed in the price list. Increased expenditures are defined as the difference between the planned production cost for the first year of series production of the product and the production cost of assimilated output. In other words, the computation of the wholesale price on a new product includes the production cost not for the first, but for the second (and in some cases the third) year of series or mass manufacture (the planned production cost of the first year minus the increased outlays for assimilation). There can be no other way of doing this. The inclusion of increased outlays during the first years of assimilation in the output of new products into the price would lead to a significant price increase, and would make the application of these products inexpedient. The price of the base product, however, is recomputed for the first year of production of the new product. Therefore, it becomes necessary to adapt it to the year when assimilation of the output of the new product is completed. This is done with the aid of the adaptation coefficient. This means that the limit price computed in this manner cannot perform the function of ensuring a cost reduction of the product as computed per unit of ultimate useful effect.

The coefficient of 0.8 performs the function of adaptation of production outlays for new and base products into a comparable (in time) form. However, the possibility of using a unified standard of adaptation raises objections. The substantiation of its amount requires a study of the regularities and peculiarities in the reduction of production cost of individual types of products by years of their series (mass) production. The reduction of outlays for the production of a product is comprised of the influence of many factors. Therefore, in establishing the wholesale price at the level of the limit price in accordance with the allowable condition  $\alpha_{\text{min}} = 0.85$ , the consumers of the products whose production cost has a higher rate of reduction will incur a loss.

The sectorial supplements to the effective methodology must consider the peculiarities of the dynamics of production outlays for individual groups of products. According to the data of Yu. Tropin, series output has a significant effect on this.<sup>5</sup> The year of output of the base model, which corresponds to the first year of assimilation of the new product is also of great importance. The adaptation coefficients ( $B$ ) cannot be the same, for example, for the third and the sixth years of output of a base product. In the initial years, the reduction in production outlays takes place more rapidly, then subsequently this process slows down.

The structure of the production cost also has a significant effect on its dynamics. Studies have shown that the labor consumption of a product decreases more rapidly than the outlays for its production as a whole. Labor consumptive products have, as a rule, high rates of production cost reduction. At the same time, the rates of change in production cost and labor consumption approach each other. If the relative share of wages is small (a product with low labor

consumption), then the gap in the dynamics of the examined indicators increases.

The application of differentiated adaptation standards in accordance with the effect of the factors examined above leads to comparability of the conditions for production of the new and the base technology. In the ultimate case, (with  $\alpha = \beta$ ), it ensures equal profitability for the consumption of the new and the replaced product. However, in order to create an interest in the application of the new product, the limit price must also fulfill the function of reducing the expenditures per unit of useful effect. Therefore, it must be set at a lower level as compared with that considered through coefficient  $B$ . The minimal amount of such reduction, in our opinion, should expediently be tied in with the supplementary statute No 1 to the effective methodology (ratified by USSR Goskomtsen resolution in December 1983) concerning the minimal relation of economic effect and wholesale price of new technology which gives the right to establish incentive mark-ups for products in the process of their production. It comprises 15 percent. This relation (with correspondence of the ratified wholesale price to the limit price) is ensured if the level of the limit price is 15 percent below the upper limit of the price for the period of completion of assimilation of series (mass) manufacture of the product (or if it comprises 0.85 of the upper limit).

In formula (2) the computation of change in the operational expenditures is performed with a correction by a factor of 0.9. However, variants are also possible in which the expenditures do not decline, but rather increase. In this case, the computation according to formula (2) underestimates the amount of losses by the consumer determined by the growth of operational costs. The marginal level of the limit price is overestimated accordingly, as is the amount of economic effect defined at the stage of planning on its basis. The application of this product if the price is set at the level of the limit price will prove to be unprofitable for the consumer. Therefore, it makes sense to reject this correction. At the same time, it is expedient to consider the accompanying capital investments ( $K$ ) in their full volume in the denominator of the formula. The changes in service life and current operational expenditures are considered not in direct form, but through coefficient  $E_H$ .

As a result, for example, relation  $\frac{T_1 + E}{T_1 + E_H}$  turns out to be less than  $T_2 : T_1$ .

Thus, with an increase in the service life from 2 to 4 years, the former comprises  $1.5 \left( \frac{0.5 + 0.15}{0.25 + 0.15} \right)$ , and the latter--2 (4 : 2). This situation is justified. It ensures the growth of the computed economic effect to a lesser degree than that of the service life, and protects the consumer against possible losses (or reduction in effect) if the actual service life turns out to be less under conditions of accelerated rate of scientific-technical progress or obsolescence of the product. As concerns the accompanying capital investments, the consumers implement these in full volume together with the acquisition of the new products regardless of whether or not the actual service life will correspond to the computed one. Therefore, the determination of change in accompanying capital investments with consideration for the effectiveness standard (as is done, for example, in the effectiveness computations for new products) overestimates the size of the effect if the accompanying capital investments are increased, and underestimates it if they are decreased.

Thus, the verification of the justification of limit prices for products with improved technical-economic parameters should be performed, in our opinion, according to the formula:

$$\frac{11.}{\frac{B_2}{B_1} \cdot \frac{\frac{1}{T_1} + E_*}{\frac{1}{T_2} + E_*} - \frac{H_1 - H_2}{T_1 + T_2}} \leq 0.85B. \quad (6)$$

where  $B$  is the standard of reduction in production costs for products as a result of assimilation of their series output, differentiated by sectors and groups of products (with consideration of the effect of all factors); 0.85 is the coefficient guaranteeing a minimal reduction in expenditures per unit of ultimate useful effect.

The proposed order ensures a high comparability of computations in verifying the justification of limit prices and economic effect from the application of new products. At the same time, for full comparability it is necessary to ensure unity in the computation of the service life and the accompanying capital investments. The shares of deductions for renovation from the balance cost of the old and new means of labor ( $P_1$  and  $P_2$  in computations of economic effectiveness) may only approximately be taken at a level inverse to the service life ( $1 : T_1$  and  $1 : T_2$  in computations on verifying the substantiation of the limit price).

The divergences which exist at the present time lead to noncorrespondence in the computation of the limit price and the economic effect. According to the effective criterion, the limit price may meet the requirements of its justification (consequently, the product is subject to planning). However, in evaluating the product at the stage of its formulation for production (by degree of its effect), it may turn out to be economically ineffective.

#### FOOTNOTES

1. PARTIYNAYA ZHIZN No 12, 1985, p 10.
2. Methodology of Determining Wholesale Prices and Net Production Standards for New Machines, Equipment and Instruments of Production-Technical Application. M., "Preyskuratorizdat", 1982, p 8.
3. The previously used methods for determining incentive mark-ups to wholesale prices provided for computation of the mark-up in percentages of the standard profit.
4. Cf.: Orlov, O., Ryasnykh, Ye., Computing the Upper Limit of Price in Wholesale Prices for New Technology PLANOVAYA KHOZYAYSTVO No 2, 1978, p 147.
5. Cf.: Tropin, Yu., Developing Limit Prices; VOPROSY EKONOMIKI No 12, 1981, p 51.

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INVESTMENT, PRICES, BUDGET AND FINANCE

PROJECTED, PAST NATIONAL INCOME GROWTH EXAMINED

Moscow EKONOMICHESKAYA GAZETA in Russian No 47, Nov 85 p 2

[Unattributed article under the rubric "Frontiers of Communist Creation":  
"Growth of the National Income"]

[Text] A central position in the system of generalized national economic indices, by means of which the end results of national production and the volumes of resources being expended upon their achievement are evaluated, belongs to the national income. Its magnitude describes the newly created value of means of production and consumer goods produced in the material production sectors.

The ratios of the national income's increases and absolute magnitudes to the labor, materials, raw materials, and capital investments being expended annually reflect production's dynamics and level of efficiency. The higher the return from the resources involved in the production process, the greater, also, the amount of national income created.

An increase in the contribution of growing efficiency in resources to growth in the national income also signifies acceleration of the national production's intensification process. Growth in the national income, with stabilization and reduction in the consumption volumes of national economic resources based upon rapid introduction of achievements in scientific and technical progress--in this lies the essence of the interrelation in dynamics of the national income and the intensification process.

Acceleration of Growth Rates

In the draft of Basic Directions of the USSR's Economic and Social Development for 1986-1990 and the Period to the Year 2000, it is envisaged to increase the national income almost twofold during the next three 5-year plans.

In accomplishing the strategic tasks of the forthcoming 15-year period, a most important role belongs to the 12th 5-Year Plan, which must become pivotal in all the directions of economic and social development. With the 12th 5-Year Plan as departure point, it is intended to increase the national income usable for consumption and savings by 19-22 percent.

Accelerating the national income's growth rates is an objective necessity in the national economy's modern stage of development. Only under this condition is it possible to take the national economy's sectors to the foremost frontiers of science and technology, bring about radical technological transformation of the production apparatus, ensure, on this basis, further raising of the population's standard of living, and consolidate our position in the economic competition with developed capitalistic countries.

The national income's planned higher growth rates will permit the society to satisfy its growing and changing requirements more rapidly and in fuller measure. The more fully the requirements are satisfied, the faster the society will solve the socio-economic problems of its development; and, other conditions being equal, the more efficiently the economic system will function, and the more purposefully the basic law of socialism will be implemented. Therefore, accelerating the national income's rates, and hence, also, the consumption fund's, will mean more rapid growth in their absolute magnitudes in time, which will lead to acceleration of accomplishment times for the socio-economic tasks set by the CPSU.

The growing dynamism of the Soviet economy is shown, not only in acceleration of the national income's growth rates, but also in the qualitative structural reforms of its material and physical content.

### Structural Reforms

Under conditions of the economy's balanced development, there is a certain volume of consumer goods and means of production behind every percentage of growth in the national income.



Diagram 1. Share of National Income Growth Due to Increase in Labor Productivity

Key:

1. Percentages
2. Almost
3. 10th 5-Year Plan
4. 11th 5-Year Plan
5. 12th 5-Year Plan

Diagram 1

Thus, the national income's growth rates adequately reflect the increase in end results of the national economy's development only under the condition of full-value repletion of these growth rates' every percentage. It is necessary that the share of progressive products, of such quality as will ensure high efficiency of their use in the public and private consumption spheres, be increased in the natural and physical structure of savings and consumption funds.

In recent years, there have appeared tendencies toward reducing the real equivalent, meeting national economic end requirements, of every ruble of national income in both the savings and consumption funds. The growth in capital investments has gone, to a substantial extent, into increasing the volumes of unfinished construction and stocks of uninstalled equipment, and into compensation for growth in estimated costs of installations being fitted out. A certain share of the growth in market funds has been expended on the formation of above-norm stocks.

In the draft of Basic Directions, it is envisaged that acceleration in the economy's growth rates must be accomplished with high quality and wide variety of products being produced, and with the absence of tendencies toward outstripping growth of prices on new means of production and consumer goods in comparison to the increase in their consumption characteristics. Accelerating the national production's intensification process and improving the economic mechanism will create the necessary conditions to ensure that such goals of economic development as increasing production volume, improving the structure of products being produced, and increasing their quality are not contradictory, but mutually supplement each other.

Concentration of capital investments in the priority directions of the national economy's development is envisaged. Emphasis is placed, first of all, upon the technical re-equipment and reconstruction of existing enterprises. The machine-building, chemical, electronics and electrical engineering industries will receive accelerated development. The use of progressive materials and technologies will be expanded.

Because of reconstruction of the investment and structural policies and concentration of resources in the most important directions of scientific and technical progress, the output of highly efficient equipment and its new generations is to be substantially increased as early as in the 12th 5-Year Plan. It is intended, for example, to increase the share of industrial products of the highest quality category 1.9-2.1-fold, and to reduce to one-third or one-fourth as much the time required for developing and mastering new equipment. Large tasks are set to broaden the variety and increase the quality of consumer goods in order to satisfy the diverse requirements of different population groups more fully. Progressive structural reforms in products being put out are defined for all sectors of the national economy.

### The Intensive Factors of Growth

Implementation of the policy of all possible intensification of production means that increase in the national income, the consumption fund and the population's standard of living will be determined to an ever greater extent by increase in production efficiency. Reallocation of capital investments and other resources to the benefit of the sectors producing consumer goods and the nonproduction sphere will become realistically possible with reduction in the capital, materials and labor inputs of material production.

During the years of the 11th 5-Year Plan, positive changes for the better took shape in the intensification aspect of production. Thus, the growth rates in produced [proizvedenny] national income and the growth rates in capital investments came closer together. The materials input in production was reduced noticeably. In 1984, the metals input in produced national income constituted 91.5 percent of the 1980 level, and the power [energy] input 95.3 percent. However, the society still is paying a high price for national income growth in comparison to the opportunities being made available by scientific and technical progress for reducing expenditures, and also because of existing shortcomings in economic practice.

Calculations show that if the planned national income growth were to be provided for henceforth on the former, largely extensive [ekstensivnaya], basis, then for this purpose it would be necessary to increase the extraction or mining of fuel and raw materials by 10-15 percent in every 5-year plan, the volume of capital investments by 30-40 percent, and additionally involve 8-10 million persons in the national economy. However, the possibilities for development of the economy by extensive methods have, for the most part, been exhausted.

In the draft of Basic Directions, there are set forth new approaches to the solution of economic problems providing for a sharp turn toward intensification. In the forthcoming 15-year period, increases in the national income and outputs of all material production sectors will be obtained, for the first time, entirely from increase in labor productivity. A marked reduction being planned in materials input will permit transforming economizing into a decisive source of satisfaction for the national economy's requirements in additional material resources. The task is set to increase national labor productivity 2.3-2.5-fold during the forthcoming 15 years. The energy input in the national income is to be reduced to no more than five-sevenths of its present level, and the metals input almost down to half of its present level.

The 12th 5-Year Plan must become the decisive stage in shifting all sectors of the national economy onto a primarily intensive development path. It is planned to obtain all growth in the national income from increasing labor productivity, significantly slow the rates of reduction in capital returns, and sharply reduce production's materials and energy inputs. Thus, it is intended to reduce the materials input in the national income by 4-5 percent, the energy input by 7-9 percent, and the metals input by 13-15 percent.



Diagram 2

Diagram 2. Reduction of Materials Inputs in the National Income

Key:

1. Energy input
2. By 1990, by 7-9 percent
3. By 2000, not less than a factor of 1.4 [to no more than five-sevenths of present level]
4. Metals input
5. By 1990, by 13-15 percent
6. By 2000, almost a factor of 2 [down almost to half the present level]

Transition to the resource-economizing type of revitalized production of the national product and national income is the 12th 5-Year Plan's basic feature. The national income will grow at outstripping rates in comparison to the total expenditures for materials, fuel and energy, wages and salaries, and the growth in fixed production assets. This means not only growth in efficiency of the resources additionally being involved in production, but also increase in the efficiency of the entire accumulated economic potential.

The system of planned measures in the draft of Basic Directions, providing for increase in the efficiency of production potential's use, acceleration of scientific and technical progress, and resource conservation, will be the basis for acceleration of the national income's dynamics during the 12th 5-Year Plan and the period to the year 2000.

## Figures and Facts

During the years of the 11th 5-Year Plan, the growth in the national income amounted to 17 percent, which provided for a large new advance in the growth of the Soviet people's well-being.

In 1984, the produced [proizvedenny] national income (defined as the total of the material production sectors' net production) amounted to 569.6 billion rubles (at currently effective values). Out of this total, 558.6 billion rubles were used for consumption and savings (after deducting compensation for losses and the foreign trade balance).

In 1984, the produced national income (in billions of rubles) was distributed by sectors of the national economy as follows:

Total National Income	569.6
Including in the National Economy's Sectors:	
Industry	262.2
Agriculture	112.7
Transport and Communication	34.0
Construction	60.7
Trade, semifinished products, material and technical supplies, and other	100.0

Price level does not always reflect socially necessary labor costs for product production. Part of the national income created in agriculture is realized in industry and other sectors of the national economy in the form of a turnover and profit tax.

If the national income is distributed among the material production sectors in proportion to pay for labor, then, in 1984, its magnitude in agriculture amounted to about 157 billion rubles.

The growth rates of the usable national income and the consumption fund practically coincided in the 11th 5-Year Plan; that is, the consumption fund's share remained stable and, in 1984, constituted 74.8 percent. If expenditures on housing and sociocultural construction are considered, then four-fifths of the national income was aimed directly at the people's well-being. During 4 years of the 11th 5-Year Plan (1981-1984), this amount grew by 248 billion rubles in comparison to 4 years of the 10th 5-Year Plan (1976-1979).

Labor productivity is the most important factor in growth of the national income. During the years 1981-1984, national labor productivity increased by 13.2 percent, which permitted saving the labor of over 12 million persons. In 1984, an increase of 1 percent in national labor productivity was equivalent to the addition of over 5 billion rubles to the national income (or saving the labor of about 1 million persons).

Whereas 78 percent of the national income's growth was provided by growth in labor productivity during the 10th 5-Year Plan, the figure was almost 90 percent in the 11th (in which it was 81 percent in 1981-1982, but 91 percent in 1983-1984).

The ratio of production result to current expenditures, including material costs, wages and salaries, and expenditures to make up for retirement of fixed assets and their capital repair, substantially affects the national income's dynamics. Such an index describes the transformation of total current costs of national economic resources into the production result. In 1980, for 1 ruble of the total expenditures for materials, wages and salaries, and making up for the retirement of fixed production assets and their capital repair, 0.52 ruble of national income was obtained, and in 1984--0.49 ruble.

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CSO: 1820/54

INVESTMENT, PRICES, BUDGET AND FINANCES

STATUTE ON NORMATIVE METHOD OF PROFIT DISTRIBUTION

Moscow EKONOMICHESKAYA GAZETA in Russian No 2, Jan 1986 p 18

[Unattributed text of "Standard Provision on Normative Method of Profit Distribution at Production Associations (Enterprises) Operating under the Conditions of the New Management System"]

[Text] The USSR Ministry of Finance and the RSFSR Gosplan have confirmed the "Standard Provision on the Normative Method of Profit Distribution at Production Associations (Enterprises) Operating under the Conditions of the New Management System" (29 October 1985, No 179). It determines the procedure for application of the normative method of profit distribution at production associations (enterprises)\* in industry in ministries operating under the new management conditions.

This procedure is being introduced in order to increase the interest of enterprises in improving production efficiency and enhancing their responsibility for the timely and complete fulfillment of their obligations to the state budget.

The standard provision does not apply to Ministry of the Automotive Industry AvtoVAZ Production Association, the Ministry of Chemical and Petroleum Machine Building Sumy Machine Building Production Association imeni M.V. Frunze and other enterprises for which a special procedure for normative profit calculations has been established by individual governmental decisions.

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\* Hereinafter, production associations (enterprises) are called "enterprises." Production enterprises in scientific-production associations with a balance leaning toward industrial activity make their profit distributions in accordance with this provision.

1. Before the beginning of the year, the ministry, or its delegated main production administrations, and all-union industrial (industrial) associations will, simultaneously with the plan for economic and social development and the financial plan, draw up and confirm for enterprises the normatives for payments from calculated profit (profit) to the budget.<sup>1</sup>

For enterprises in the light, food, and meat and dairy industries, during the five-year plan a normative will be established for deductions from above-plan calculated profit (profit) to the state budget, and in the annual plan, deductions from planned calculated profit (profit). As a rule, the normatives for deductions into the state budget from above-plan calculated profit (profit) will be confirmed at the same level for all enterprises. If the profit plan is overfulfilled up to 3 percent inclusive, 50 percent of above-plan profit will be deducted into the state budget. In the case of overfulfillment of the profit plan by more than 3 percent, 75 percent of the sum making up the excess will be deducted to the state budget.

For enterprises in the sugar, fats and oils, essential-oils, starch-and-molasses, spirits, tobacco-and-fermentation and bakery industries and food industry enterprises of local subordination the normatives for deductions to the budget will be established from the sum of the planned balance profit.

2. By general planned balance profit is meant the balance profit of an enterprise for all kinds of activity.

In the financial plan (the income and expenditure balance) the general sum of balance profit and payments into the budget from profit according to kinds of payments will be established annually by quarters.

When determining the planned balance profit to be distributed, profit which in accordance with USSR Council of Ministers decisions is of a strictly goal-oriented nature and used under a special procedure, is excluded. This includes the following:

profit from the sale of consumer goods and articles of production-technical designation manufactured from production waste and local raw materials; this profit is allocated for the consumption fund;

profit derived from the sale of consumer goods manufactured from nonstandard leather and fur and pelt raw materials, part of which is left available to the enterprise;

profit remaining for disposal by the enterprise for other purposes, in amounts established by USSR Council of Ministers decisions.

Profit from subsidiary agricultural activities on the balance of enterprises and organizations is distributed according to the procedure established for these enterprises.

During the repayment period for loans for production purposes on subsidiary farms, all profit derived from such activity is allocated primarily to pay off such loans.

3. When determining planned calculated profit from balance profit deducted in accordance with section 2 of the Standard Provision, the following are excluded:

payments for fixed production capital and normed circulating capital (payments for production funds) deducted in accordance with the procedure established by instructions from the USSR Ministry of Finance and the USSR Gosplan on procedure for collecting payments into the budget for production funds;

interest on bank loans.

4. Planned calculated profit determined in accordance with the procedure set forth above is allocated for deduction to the state budget in accordance with established procedure.

5. Planned calculated profit remaining at the disposal of the enterprise is determined as the difference between planned balance profit (section 2 of this Standard Provision) and planned payments as indicated in sections 3 and 4 of the Standard Provision, and is used for the following:

a) forming the material incentive fund, the fund for social and cultural measures and housing, and the production development fund in accordance with the methods established for such deductions<sup>2</sup>;

b) financing state capital investments (in part not covered by amortization deductions and other funding sources);

c) repaying bank loans;

d) increasing the normative for circulating capital;

e) as payments into the unified fund formed in the ministry for the development of science and technology;

f) as deductions to the material incentive funds for developing and introducing new equipment (formed in part through reducing prime costs);

g) covering losses from housing and municipal services operations and expenses incurred in connection with the economic maintenance of cultural and educational establishments and pioneer camps;

h) deductions into the ministry financial assistance reserve;

i) deductions to a higher organization in accordance with the procedure for the distribution of profit;

j) other planned expenses in accordance with existing legislation, including increases in wholesale prices above retail prices for consumer goods.

For enterprises in subsectors of the food industry as indicated in Section 1 paragraph 4 of this Standard Provision [as published; probably should read "Section 1 paragraph 3--ed], with the exception of profit used under special

procedures, profit will be deducted to the state budget in accordance with the established normative and used to pay interest on bank loans, and also as deductions for their own needs as indicated in subsections "a" through "j" of this section.

6. For enterprises in local industry that use the labor of old-age pensioners and disabled persons making up 30 percent or more of the total number of workers, planned calculated profit is allocated as follows:

- a) deductions to the state budget in accordance with the confirmed normative;
- b) deductions from profit remaining at the disposal of the enterprise and used for the purposes and in the amounts established by USSR Council of Ministers Decree No 674 of 14 September 1973;
- c) financing expenses as indicated in subsections "b" "d" and "j" in Section 5 of this Standard Provision.<sup>3</sup>

7. The normative for deductions to the budget from calculated profit for the planned year is determined from the difference between planned total calculated profit and deductions and expenses for enterprises' own needs as indicated in Section 5 subsections "a" through "j" or Section 6 subsections "b" and "c" of this Standard Provision, and total planned calculated profit.

For enterprises in subsectors of the food industry as indicated in Section 1 paragraph 4 of this Standard Provision [as published], the normative for deductions into the budget is determined from planned balance profit (Section 2 of the Standard Provision), with the exception of bank interest, and also deductions and expenses for enterprises' own needs, and total planned balance profit.

8. Actual profit is considered to be profit according to the report balance of the enterprise for all kinds of activity.

When determining actual profit subject to distribution, the following are excepted:

profit used under the special procedure established by Section 2 of this Standard Provision;

additional profit (total additions to the wholesale price) derived from the sale of new, highly efficient output of production-technical designation, and output that has been awarded a Mark of Quality; and additions for deliveries of complete sets of equipment;

total additional earnings obtained as the result of raising of established prices or violation of existing pricing procedure, which are paid in the budget by the enterprise in accordance with established procedure;

additional profit derived by an enterprise in individual cases through the production of output that is substandard or does not meet technical specifications, which is to be paid into the budget as an economic sanction;

total additional profit derived from organizational-technical measures implemented and used to make up shortcomings in an enterprise's own circulating capital or to repay loans taken for this purpose;

total above-plan expenses used to make up the difference between wholesale and retail prices for consumer goods;

profit used under special procedures in accordance with individual decisions of the USSR Council of Ministers.

If an enterprise fails to meet the conditions giving it the right to dispose of its profit (in accordance with Section 2 of this Standard Provision), this profit is distributed in accordance with generally established procedures.

9. When determining actual calculated profit from actual balance profit (Section 8 of the Standard Provision), actual sums used to pay for production funds and bank loan interest are excepted.

In this case, saving for payments for production funds obtained as the result of failure to fulfill the confirmed plan for the commissioning of fixed capital and production capacities and projects, is not considered when determining actual calculated profit and is deducted to the budget.

The following are also excepted from actual profit:

a) total bonuses paid out for results of all-union and republic socialist competition;

b) additional deductions to the material incentive fund for increases in output of consumer goods per ruble of wages fund (for enterprises where these goods make up less than 50 percent of total production volume).

10. When the profit planned is fulfilled or overfulfilled (with the exception of profit used under any special procedure), actual calculated profit is used for deductions into the state budget in accordance with the confirmed normative.

For enterprises listed in Section 1 paragraph 2, when the profit plan is fulfilled or overfulfilled, with the exception of profit used under any special procedure, actual calculated profit (profit) at the enterprise is used for deductions into the state budget from the actual calculated profit (profit) within plan limits in accordance with the established normative. When the profit planned is overfulfilled up to 3 percent inclusive, 50 percent of the above-plan calculated profit (profit) making up this excess sum and 75 percent when the plan is overfulfilled by more than 3 percent, will be deducted from payments. In this event, above-plan calculated profit (profit) at an association (or enterprise) is determined as the difference between actual calculated profit and planned calculated profit.

Calculated profit left at the disposal of the enterprise is used as follows:

additional payment of 3 percent of the value of above-normative reserves of material-commodity values not covered by bank loans and uninstalled equipment;

actual deductions and expenses for the enterprise's own needs as provided for in Section 5 (subsections "a" through "j") and Section 6 subsections "b" and "c" of this Standard Provision;

expenses not provided for by the plan, namely:

a) additional deductions to the material incentive fund given total fulfillment of the output sales plan, taking into account obligations for deliveries under the terms of contracts concluded;

These deductions are made after payment for this purpose of assets from the material incentive fund held in reserve in previous periods in connection with nonfulfillment of the output sales plan.

When these sources are inadequate (assets previously held in reserve and free calculated profit), the sum paid into the material incentive is made up through reduced deductions to the budget and, if necessary, through reducing payments into the production funds;

b) making up shortcomings in an enterprise's own circulating capital and repaying loans obtained for this purpose for an above-plan task when additional profit is derived, and also loans made for increasing the normative for circulating capital;

c) deductions at year end into the material incentive fund within the limits of unutilized savings from the wages fund against the established normative (provided that the production plan and the labor productivity growth plan have been fulfilled);

d) increasing the normatives for circulating capital (for enterprises of the food and meat and dairy industries and the USSR Ministry of the Fish Industry and the USSR Ministry of Light Industry);

e) forming an enterprise financial reserve.

The expenses and deductions listed here are made through and within the limits of actual profit remaining at the disposal of the enterprise without taking into account assets used in accordance with the second and third paragraphs of subsection "a."

11. For enterprises for which the plan contains no confirmed normatives for deductions to the budget from calculated profit, actual calculated profit remaining after the addition of 3 percent of the value of above-normative reserves of material-commodity values not covered by bank loans and uninstalled equipment, and also expenses provided for by the financial plan, or for additional deductions to the material incentive fund given total fulfillment of the output sales plan, taking into account deliveries under the terms of contracts concluded, is distributed equally between the budget and the enterprise. Savings from reducing losses at planned-loss enterprises, achieved by incurring below-plan losses, are distributed in the same way.

12. If the planned balance profit plan is not fulfilled (with the exception of profit used under special procedures) up to 2 percent of actual calculated profit deducted in accordance with Section 8 of this Standard Provision is used for normative deductions into the budget in the planned amounts established through a corresponding reduction in the amount of profit left at the disposal of the enterprise.

If the profit planned is underfulfilled in large amounts deductions to the budget and part of the profit remaining at the disposal of the enterprise are reduced in accordance with the established normative. The deducted sum of payments in accordance with the established normative is increased for payments according to the normative when the balance profit plan is underfulfilled 2 percent.

For enterprises in the light, food, and meat and dairy industries if the balance profit plan is not fulfilled (with the exception of profit used under special procedures) actual calculated profit (profit) is used for deductions into the budget in accordance with the established normative.

In this event, enterprises in local industry use actual calculated profit for deductions into the budget in accordance with the established normative and for expenses and deductions as indicated in Section 5 subsections "a" through "j" and Section 6 subsections "b" and "c" of this Standard Provision.

Calculated profit remaining at the disposal of the enterprise is used as follows:

additional payment of up to 3 percent of the value of above-normative material-commodity reserves not covered by bank loans and uninstalled equipment;

expenses and deductions as indicated in Section 5 subsections "a" through "j" and Section 6 subsections "b" and "c" of this Standard Provision.

13. In addition to payments from profit into the budget, part of additional profit obtained by the enterprise from the sale of new, highly efficient output of a production-technical designation with a state Mark of Quality, and also part of the addition for deliveries of complete sets of equipment as determined by the established procedure is used as payment into the budget.

14. In cases where rebates are set for wholesale prices for output certified as a top-category output, and also output for which any rebate is rescinded, when these amounts are not withdrawn into the budget, when calculating the amount of payments from profit, the following are required:

for enterprises for which a normative has been established for deductions into the budget from calculated profit, the calculated profit is increased in an amount equal to the rebate;

for enterprises for which a normative has not been established for deductions into the budget the profit for redistribution between the budget and the enterprise is increased by a sum equal to the amount of the rebate (Section 11 of the Standard Provision).

Examples of the calculation are provided in appendix No 5.

In addition, under this procedure for determining payments into the budget, profit is increased by the sum of losses made from the commission sale of consumer goods withdrawn from production.

15. Payments by an enterprise into the state budget from profit are made independently (in a decentralized manner) under procedure determined by the USSR Ministry of Finances.

16. Examples of calculation of the planned normative for deductions from calculated profit (profit) and the distribution of actual profit of enterprises are shown in appendices 1, 1a, 2, 3, 3a, 4 and 5 of this Standard Provision.<sup>4</sup>

17. Special features in the distribution of profit as provided for in similar sector normative acts should be agreed in accordance with established procedure.

18. The Standard Provision comes into effect from 1 January 1986.

#### FOOTNOTES

1. For enterprises in local industry normatives are confirmed by the appropriate all-union and republic ministries of local industry, republic industrial associations (or administrations), and the krayispolkoms, obispolkoms and gorispolkoms (in cities of republic subordination in the union republics) of the local industry administrations.

2. Before forming economic incentive funds enterprises in local industry use profit to form the local industry development fund in accordance with existing procedures.

3. Enterprises using the labor of old-age pensioners and disabled persons making up 30 percent or more of the total number of workers and using part of profit for this purpose do not make deductions into the local industry development fund.

4. The appendices to the Standard Provision are not published here.

9642

CSO: 1820/53

## RESOURCE UTILIZATION AND SUPPLY

### NEW INSTRUCTIONS FOR IMPLEMENTING SUPPLY CONTRACTS IN 12TH FYP

Moscow KHOZYAYSTVO I PRAVO in Russian No 11, Nov 85 pp 19-28

[Article by G. Shapkina, candidate of juridical sciences; chief, Contract, Legal and Arbitration Department, USSR Gosnab [State Committee for Material-Technical Supply]: "Economic Contracts for the 12th Five-Year Plan"]

[Text] The conclusion of economic contracts for the delivery of products and commodities is a large-scale organizational measure that is entailed in the preparation of industry and other branches of the national economy for the new five-year plan. The scale of this effort can be judged on the basis of the following data. USSR Gosnab organizations alone must conclude approximately 600,000 contracts with enterprise-suppliers and more than 2.5 million contracts with consumers. Other enterprises and organizations will have to establish many thousand contractual relationships. The formation of the system of contractual relationships at the proper time and the orientation of this system toward the realization of economic and social tasks under the five-year plan constitute a serious factor in securing their successful realization.

USSR Gosnab and USSR Gosarbitrash [State Board of Arbitration] held a conference of USSR ministries and departments that examined these question. The reports by B. Yakovlev, deputy chairman, USSR Gosnab, Ye. Anisimov, chief state arbiter, and speeches by the leaders of a number of ministries and departments discussed the most important aspects of the formation of a rational system of economic and contractual relationships for the new five-year plan as well as specific measures to strengthen the role of contracts in the implementation of the program for the intensifying and increasing the effectiveness of production and improving management as indicated by the April (1985) Plenum of the CPSU Central Committee, the conference at the CPSU Central Committee on questions pertaining to the acceleration of scientific-technical progress, by Decree No 669 (12 July 1985) of the CPSU Central Committee and the USSR Council of Ministers "On the Broad Diffusion of the New Methods of Management and Their Impact on the Acceleration of Scientific-Technical Progress."

The conference resulted in the publication of the Guidelines on the Organization of Work on Concluding Economic Contracts for the Delivery of Producer Goods under the 12th Five-Year Plan. The guidelines treat two basic,

interconnected groups of questions. First, the conclusion of contracts covering the entire volume of deliveries of products specified by the plan within the specified time. Second, the maximum use of the contract as an important instrument for securing the broad participation of enterprises and organizations in the solution of economic problems and for developing their initiative and independence in the interest of optimal economic performance.

The establishment of contractual relationships in good time (before the plan period begins) is a necessary condition to high rates of work in industry and other branches of the national economy from the first days of the five-year plan. There have been positive changes in this direction in recent years. There has been an increase in the number of enterprises that conclude contracts before the beginning of the plan year and that consequently have ample time to tool up for the production of the products needed by the customer. On 1 January 1985, enterprises in most branches of industry had concluded contracts for 80-90 percent of the volume of deliveries for the year compared with less than 50-60 percent several years ago.

The conversion of enterprises in a number of branches to the economic experiment that coordinates the evaluation of performance and economic incentive more closely with the performance of contractual obligations has strengthened the role of contracts. However, at the beginning of the year, many suppliers had not yet concluded contracts for considerable volumes of deliveries. This circumstance creates difficulties in their work, makes it difficult to secure the rational utilization of production facilities, and frequently results in the expenditure of material and labor resources on the production of goods that were not ordered. The elimination of this lag is a significant reserve for securing the more complete utilization of the production potential and for raising the level of fulfillment of deliveries. This requires the correction of shortcomings in the planning of production and the delivery of products and, simultaneously, a higher degree of organization of and responsibility for contract work at every enterprise.

With respect to the activity of economic management organs, this means drafting production plans and conveying them to performers [ispolniteli] in good time, balancing production programs with material-technical supply, the strict observance of the deadlines for distributing output, matching buyers to suppliers, and the issuance of plan acts to them that serve as the basis for concluding contracts. This entire complex of questions is treated in the Guidelines. They place particular emphasis on the responsibility of organs of management of industry and other branches of the national economy for the observance of socialist legality in economic relationships.

One of the most common reasons for the late preparation of delivery contracts is the failure of ministries and department-fundholders [fondoderzhateli] to distribute products to customers on schedule. This was the reason why some suppliers were unable to conclude up to 50 percent of their contracts in 1985. The USSR Ministry of Light Industry, USSR Ministry of Power and Electrification, USSR Ministry of the Gas Industry, USSR Goskomselkhoztekhnika [State Committee for Supply of Production Equipment for Agriculture], and certain other ministries and departments failed to meet the deadline for the distribution of funds on numerous occasions. The Guidelines call upon

soyuzglavsnabshbyts [USSR Gosnab main administrations for supply and sales] to exercise tighter oversight over the fundholders' observance of discipline for the allocation of funds. When they are not met, the question of corresponding reduction of funds and the possibility of suspending supplies to customers belonging to other systems may be examined and resolved according to the established procedure. They also call the attention of fundholders to the need for the closer examination and substantiation of the requisitions that are the basis on which funds are allocated. These measures are dictated by the demand for stronger plan and contract discipline.

Decree No 669 of the CPSU Central Committee and the USSR Council of Ministers (12 July 1985) provides the necessary conditions for the timely planning of deliveries and for matching customers and suppliers. It stipulates that USSR Gosplan must at an earlier date convey production targets (before 10 August) and funds for a broad mix of material resources (before September) of the year preceding the planned year) to ministries and departments of the USSR and councils of ministers of union republics.

With the transition of the enterprise to market relations, as part of the economic experiment, the increased attention to contracts has also been accompanied by negative trends--the striving of some suppliers to conclude contracts for a smaller delivery volume than indicated in the plan acts issued to them, thereby making it easier for them to fulfill their contractual obligations one hundred percent. In the process, considerable production capacities are often used to produce the products the national economy needs. Such a practice of deliberately inflating work indicators (and the economic incentives associated therewith) at the same time that the actual indicators listed in the delivery plan are underfulfilled is inadmissible. Based on the requirements of legislation, the Guidelines stipulate that enterprises-suppliers have the obligation to conclude contracts for the entire planned volume. In the event contracts cannot be concluded because customers refuse the products allocated to them, because funds are not allocated in sufficient amount or for other reasons beyond the producer's control, the supplier must report the fact before the delivery period indicated in the plan to the soyuzglavsnabshbyt or other organ issuing the plan act so that it can take additional measures to ensure the utilization of production capacities and issue plan acts for the delivery of products to other customers. In the event a given product is not in demand, the question of removing it from production and producing other products needed by the customer must be resolved according to the established procedure.

Unjustifiable attempts by certain suppliers to postpone delivery deadlines indicated in the plan to the detriment of the customers' interests are also unlawful. Customers in turn must submit specifications and other technical documentation required for the conclusion of contracts and for production to the suppliers and must perform other obligations in good time.

The Guidelines devote special attention to making contracts more effective and to overcoming the formal attitude toward them.

Expansion of the rights and potential of enterprises in economic relationships and the raising of the rate of contracts are associated with the

further development and improvement of progressive forms of material-technical supply. Under the 11th Five-Year Plan, considerable attention was devoted to the development of direct, long-term economic ties between enterprise-producers and customers, which created the possibility for the most fruitful cooperation. Over 6000 enterprise-suppliers and 11,300 customers for deliveries of products belonging to 2800 different groups were converted to these ties. They operated under more than 120,000 long-term contracts with an annual delivery volume of more than 40 billion rubles. Long-term ties also developed between enterprise-producers and supply-sales organizations. Nevertheless, the potential for their expansion is far from exhausted. The Guidelines discuss the need to preserve the economically substantiated stable economic ties that existed between suppliers and customers under the 11th Five-Year Plan and to secure their further development between enterprises and organizations with stable production and consumption patterns. Considerable reserves exist for the establishment of new, rational, direct economic ties with respect to deliveries of metal, chemical and petrochemical products, many types of machine building products, etc. Ministries, departments, ~~and Gosnab~~, as well as enterprises and territorial organs of USSR ~~and~~ must work in this direction.

The long-term contract, which is concluded for the entire effective period of the five-year plan of economic and social development, is called the basic form of economic relationships with respect to deliveries. Five-year contracts are concluded not only between enterprises and organizations converted to direct long-term and long-term economic relationships. They can be applied by suppliers and customers who have established stable economic relations based on warrants (varyady) issued annually. The following example attests, in particular, to the degree to which this form has been diffused. Under the 11th Five-Year Plan, USSR Gosnab organizations obtained more than 70 percent of their products from enterprise-suppliers on the basis of long-term contracts. The actually existing, stable delivery relationships are the basic reserve that can be used as the basis for the planned conversion of suppliers and customers to direct long-term and long-term economic relationships.

The effectiveness of contracts is ultimately associated with the activity of enterprises and organizations in the coordination of their conditions, with an interested approach to the parties to the adoption of mutually advantageous obligations. Analysis of contractual practice unfortunately shows that many enterprises and organizations make little use of their rights and potential. It is a matter of paramount importance to strengthen the influence of contrarians on the formulation of production plans in the proper mix and to overcome the so-called obstacle of the supplier. It would seem that every condition to this is available to enterprises that have been converted to direct, long-term economic ties, where a reduced number of plan indicators is conveyed to suppliers and customers, and the parties may negotiate beforehand the mix required for the customers. Study of the content of a considerable number of long-term contracts concluded by enterprises converted to such ties shows that these questions are satisfactorily resolved in roughly one of three cases. Producers are inflexible in their reaction to changes in the national economy. Many customers also fail to show sufficient persistence in the exercise of their rights. The same can also be said about the coordination of

delivery time in such a way as to ensure the proper rhythm of supply, rational and economical performance of obligations, etc. The question of not only vesting enterprises and organizations with additional rights, but of developing the skill of exercising these rights actively is important in this regard. An important role in explaining the rights of enterprises, in securing their practical realization in the conclusion and execution of contracts belongs to the legal services.

A leading place in the Guidelines is assigned to measures to improve product quality, to accelerate the utilization of advances of scientific-technical progress, and to the economical expenditure of material resources. Coordination of product mix plans (utilization of production capacities), the attention of ministries, departments and soyuzglavsnabsbys is required at this need to decide more efficiently the question of authorizing the production of the most progressive, economical and popular types of products and of preventing the production of obsolete, excessively material-intensive products. Soyuzglavsnabsbys are forbidden to issue warrants for the delivery of low-quality products that are slated to be taken out of production. The customer must more carefully examine the technical documentation (detail design) that is the basis on which products are ordered and its correspondence to modern scientific-technical requirements. The contract must become a means that not only fixes demands on the quality of a product, but that also promotes its improvement on the basis of the latest advances in science and technology. These questions can be successfully resolved through the long-term coordination of terms of gradual product renovation by the parties, the improvement of production techniques, the improvement of economy of operation, the reduction of the material- and energy-intensiveness of products, etc.

Closely associated with the problem of improving product quality is the problem of ensuring the delivery of complete equipment packages, increasing the factory's oversight over the assembly and testing of equipment, and increasing the supplier's responsibility for the observance of these demands. The corresponding directives and norms that are obligatory for suppliers, soiuzglavkomplekts [main administrations for ensuring the supply of complete sets of equipment, instruments, cables, and other manufactures for high-priority construction projects in the coal, petroleum and other branches of industry], and other supply organizations and customers are contained in Decree No 669 (12 July 1985) of the CPSU Central Committee and the USSR Council of Ministers. Contracts must secure their fulfillment.

High demands are made on territorial organs of USSR Gosnab, which are scheduled to increase the volume of delivery of products to customers, to expand types of services and improve the quality of services based on contracts for the organization of material-technical supply, and to provide stronger guarantees of the complete and uninterrupted supply of customers with the material resources required for the fulfillment of production and capital construction plans. Under the 11th Five-Year Plan, approximately 60,000 such contracts were concluded with an annual delivery volume of more than 19 billion rubles' worth of products. The absolute majority of enterprises converted to the economic experiment between 1984 and 1985 were converted to this progressive form of supply. Under the 12th Five-Year Plan, territorial organs of USSR Gosnab will conclude long-term contracts for the organization

in material-technical supply with all basic enterprises and organizations converted to the new forms of management in accordance with Decree No 669 (12 July 1980) Decree of the CPSU Central Committee and the USSR Council of Ministers.

For the benefit of customers that are not converted to long-term ties, it will be necessary to create a reliable warehouse supply system based on orders specifying the quantity, assortment and date of deliveries and other terms. In the appropriate situations, it is also possible to employ such a form of supply as supply based on the customer's demands (if the customer is interested in such a system). In the event such a system is established, territorial organs of USSR Gosnab must guarantee customers that they will receive the products they need when they need them.

The organized execution of the contract campaign requires the constant attention of ministries, departments and other organs of economic leadership to this question. The elaboration of specific measures to strengthen the role of contracts, which are discussed in the Guidelines, must be preceded by careful analysis of contract practice at subordinate enterprises and in organizations, and by the identification and elimination of existing shortcomings.

Beginning 1 January 1980, a new statistical form on concluded contracts will be introduced (in place of the previous form which contained data on the previous year), which will make it possible for ministries, departments and organs of USSR Gosnab to exercise control over the course of formalization of deliveries and to take the necessary steps to eliminate interruptions. At the same time that ministries, departments and other organs increase the initiative and activity of enterprises in concluding contracts and in deciding economic issues, they must not permit the restriction of the rights granted to them or excessive regulation. This demand, which is contained in directives, is emphasized once again in the Guidelines. It must be observed both in the stage of formation of economic ties and in the period of their action (by securing the stability of contractual relationships, eliminating the correction of plans, etc.).

Arbitration organs exert a considerable impact on the formation of contractual relationships, on enhancing their role and quality. Their impact is not confined to the annual resolution of several tens of thousands of disputes that arise in the process of concluding economic contracts. The decisions that are arrived at in pre-trial disputes, while usually establishing the most rational, legislatively appropriate interrelations between the specific parties, often predetermine the approach of enterprises and organizations to the solution of similar issues in other contracts. Organized preventive work carried out by state arbitration organs in the interest of the more effective application of contracts in economic practice and of strengthening legality in economic relations is of great importance. The Guidelines provide for the active use of all these forms in the course of the organization of contractual relationships regarding the delivery of projects under the 12th Five-Year Plan. The organized effort to conclude economic contracts, proper preparation for the performance of adopted obligations, and the creation of an atmosphere of demandingness and responsibility for their strict observance are necessary

conditions to the intensive and productive work of all links in the economic system under the new five-year plan.

Guidelines on the Organization of Work on Concluding Economic Contracts for the Delivery of Producer Goods Under the 12th Five-Year Plan (Ratified by Decree No 96/6 of USSR Gosnab and the USSR State Board of Arbitration) on 30 August 1985)

1. The conclusion of economic contracts for the delivery of producer goods under the 12th Five-Year Plan to ministries, departments, associations, enterprises and organizations must be regarded as an important economic-organizational measure directed toward securing the successful fulfillment of the state plan for the nation's economic and social development, the intensification and increased effectiveness of production, and the broader use of the initiative and activism of enterprises and organizations in the resolution of economic issues.

This work is to be based on the directives of the April (1985) Plenum of the CPSU Central Committee, the results of the conference at the CPSU Central Committee on problems of scientific-technical progress, and Decree No 669 (12 July 1985) of the CPSU Central Committee and the USSR Council of Ministers "On the Broad Diffusion of New Methods of Management and the Intensification of Their Influence on the Acceleration of Scientific-Technical Progress."

2. Organizational work on concluding economic agreements must be directed toward:

securing the timely formalization of contractual relationships pertaining to the delivery of products in the full volume stipulated in the plan, the creation of conditions for the proper preparation of enterprises and organizations for the production and delivery of products needed by the customer, and the most effective utilization of the production potential for the satisfaction of the national economy's needs;

increasing the customer's influence on the formulation of production plans with respect to mix (assortment);

the active use of economic and legal means to improve product quality on the basis of the broad utilization of scientific and technical advances;

securing the consistently economical production, delivery and utilization of material resources; introducing rational modes of fulfilling obligations;

further strengthening state plan and contract discipline; raising the responsibility of enterprises and organizations for the fulfillment of state plans and contractual obligations;

raising the responsibility of organs for the management of industry and other branches of the national economy for the clearly defined organization of economic ties; observing socialist legality in the economic sphere.

3. In the interest of further strengthening the cooperation of enterprises and organizations and expanding their independence, to continue work on the development and improvement of direct long-term and long-term economic relationships pertaining to the delivery of products.

In organizing these relationships in the coming five-year plan, it is necessary to secure:

the preservation of economically substantiated, stable economic ties between suppliers and customers that existed under the 11th Five-Year Plan;

the further expansion of rational, direct long-term and long-term economic ties between enterprises and organizations with stable production and consumption patterns;

the implementation of an integrated approach to the conversion of enterprises and organization-customers to direct, long-term ties for the basic types of products used by them.

4. To apply as a basic form of economic ties pertaining to deliveries a long-term contract that is concluded for the entire period of the five-year plan for economic and social development, ensuring the stability of economic relations and expanding the possibility of suppliers and customers to resolve future problems pertaining to production and economic activity.

Contracts for the five-year period are concluded:

in direct long-term and long-term economic relations based on assignment plans issued under the established procedure;

in the implementation of the guaranteed integrated supply of customer's by territorial organs of USSR Gossnab on the basis of contracts for the organization of material-technical supply;

in actually existing long-term economic relations between suppliers and customers on the basis of annually issued warrants [nariady].

In the concluded contracts, suppliers and customers must articulate mutual obligations ensuring the strengthening of the influence of the contract on the planning of the production and delivery of products (in particular, to establish the procedure and deadline by which customers submit and coordinate orders for products in the detailed mix), uninterrupted and rhythmic supply, etc. To devote special attention to raising product quality, to expanding and updating the product mix, to accelerating the utilization of advances of scientific-technical progress, and to the economical expenditure of material and labor resources. To provide conditions ensuring the flexible reaction of suppliers to the national economy's changing needs for products. In the conclusion of long-term contracts, to be guided by model contracts ratified by USSR Gossnab and the USSR State Board of Arbitration.

In accordance with the Law of the USSR "On Labor Collectives and Raising Their Role in the Management of Enterprises, Institutions and Organizations," it is

necessary to involve collectives more widely in the elaboration of questions relating to the long-term cooperation of enterprises and organizations on a contractual basis, in the development of optimal conditions for such cooperation, in the resolution of problems relating to the effective utilization of production capacities and potential for the most complete satisfaction of the customer's demand and in order to attain high economic work indicators; to mobilize labor collectives for the prompt, quality execution of concluded contracts.

In the planning of production and the delivery of products, ministries, departments and other economic management organs must not permit the restriction of the rights of enterprises and the excessive regulation of their activity.

5. In order to secure the timely formalization of contractual delivery relationships, ministries, departments, soyuzglavsnabsbys and territorial organs of USSR Gosnab must strictly observe the legislatively established deadlines for conveying plan targets to performers, for assigning customers to suppliers, and for assigning them plan acts for the delivery of products.

Soyuzglavsnabsbys, ministries and departments distributing the various types of products among fundholders must exercise closer oversight over the timely presentation of funds to the customers and their assignment to suppliers. If individual fundholders refuse to accept part of the allocated funds and if they are not distributed within the legislatively established period (if the undistributed reserve is in an amount that exceeds the maximum specified in the law), to examine and resolve the question of reducing funds and redistributing the corresponding resources among other fundholders under the established procedure.

In the process of issuing plan acts for the delivery of products (warrants, counter-warrants), Soyuzglavsnabsbys, territorial organs belonging to USSR Gosnab, ministries and departments must be strictly guided by the established minimum shipping norms, bearing in mind the fact that only those customers who are allocated products in a quantity no lower than the minimum shipping norms and customers who have the right to obtain products from producers in non-transit quantities may be assigned directly to enterprise-producers. The delivery of products to customers in other instances must be planned and carried out through the appropriate supply and sales organizations.

6. In the process of coordinating product mix plans (production capacity utilization protocols), ministries, departments and soyuzglavsnabsbys must more actively resolve the question of expanding the production of the most progressive, economical and popular types of products and prevent the production of obsolete, excessively material-intensive products that are not in demand. Soyuzglavsnabsbys must not issue warrants for the delivery of low-quality, obsolete products that are scheduled to be taken out of production.

Ministries, departments, enterprises, and organization-customers must raise the level of preliminary processing of requisitions and orders submitted for products, bearing in mind the exclusion of cases involving the overstatement

of the requirement for material resources and refusals to accept allocated products and to conclude contracts. Special attention must be devoted to the careful processing of technical documents (detail designs) that are the basis on which products are ordered and to their correspondence to modern scientific-technical requirements.

Enterprises and organization-customers must see to it that suppliers are provided with specifications and other technical documentation required for concluding contracts in good time.

7. Enterprise-suppliers must ensure the conclusion of contracts for the entire volume of production indicated in plan delivery acts issued under the established procedure.

In the event of the incomplete formalization of delivery contracts on the basis of issued plan acts (in connection with the customers' refusal of allocated products, the untimely issue of counter-warrants by fundholders, etc.), suppliers must before the delivery period (quarter) so inform the appropriate soyuzglavsnabsbyts or other organs that distribute the given product and that assign customers to suppliers and must indicate the volume of products for which delivery contracts have not been concluded and the reasons why they have not been formalized. Upon receiving this information, the indicated organs must promptly examine and resolve the question of the additional utilization of production facilities and the issuance of plan acts for the delivery of products to other customers, and if no need exists for a given product, must remove it from production under the established procedure, and must organize the production of products that are needed by the national economy.

8. In the interest of securing the more complete satisfaction of the customers' demands for the products they need and of increasing the influence of the customers and supply-sales organizations on the formulation of the product mix (assortment) plans, USSR ministries and departments must within a short period of time complete and duly approve for subordinate enterprises and organizations a list of the products to be produced and delivered, which [list], in accordance with the Statute on Deliveries of Producer Goods, must guide the parties in the conclusion of contracts. The product mix (assortment) should be articulated in the lists in sufficient detail to give customers the opportunity to select and order the necessary items. When necessary, USSR ministries and departments must amend and supplement previously published lists to take into account the expansion and renovation of the mix of products scheduled for production and delivery under the 12th Five-Year Plan. Soiyuzglavsnabsbyts must take an active part in this work. USSR ministries and departments must convey approved product lists to enterprises and organizations.

In accordance with the approved lists, enterprise-suppliers must accept orders from customers for the delivery of products in the mix (assortment) within the quantity indicated in plan acts for the delivery of products. The parties are entitled to contract for the delivery of products in a mix (assortment) that is not included in the lists.

9. Territorial organs of USSR Gosssnab shall take measures to raise the level of deliveries and to render services to customers on the basis of contracts for the organization of material-technical supply, to strengthen guarantees of their complete and uninterrupted supply with the material resources required for the fulfillment of their production and construction plans, and to expand the volume and types of services rendered customers. Such contracts shall be concluded with all basic enterprises and organizations converted to the new methods of management in accordance with decree No 669 (12 July 1985) of the CPSU Central Committee and the USSR Council of Ministers.

There shall be improvement in the organization of the supply of customers with whom long-term contracts have not been concluded on the basis of orders submitted by them to territorial organs of USSR Gosssnab (based on the warehouse form of supply), which are formalized according to the procedure specified in the Statute on the Delivery of Producer Goods. The orders must clearly specify the necessary terms of delivery: quantity, mix, delivery dates, etc.

Where necessary, the parties may specify in the contracts (agreements) that products are to be released to the customer from enterprises subordinate to territorial organs responsible for deliveries at the customer's demand. Such a procedure should be established on the basis of appropriate USSR Gosssnab directives and in such cases it should be stipulated that customers should be given the guarantee that they will receive necessary products when they need them.

10. Soyuzglavkomplekts under USSR Gosssnab and similar organizations belonging to ministries and departments must use contracts more actively to ensure the complete delivery of equipment packages and other products to enterprises under construction and reconstruction and to raise their quality and technical level. In the process of approving the technical terms defining the completeness of delivery, the degree of factory oversight over assembly, and other terms of equipment deliveries for the given types of equipment under the procedure indicated in Decree No 669 (12 July 1985) of the CPSU Central Committee and the USSR Council of Ministers, it is essential to secure the strict fulfillment of their demands. The indicated technical terms for suppliers must be the basic document for the formulation and elaboration of the production program.

The stipulation of deadlines and other terms of contracts pertaining to the delivery of equipment must be based on the need for the equipment to be delivered by the beginning of the scheduled installation period, by the need to reduce the time required to put the equipment into operation, and by the need to reduce the reserve of uninstalled equipment.

11. Ministries, departments, enterprises and organizations must take additional measures to expand progressive forms and methods to fulfill delivery obligations, to promote the further development of container and packet shipping, to reduce the material and labor expenditures entailed in bringing products from the producer to the consumer, to ensure the integrity of the products, and to reduce losses of material resources to a minimum. The

contracts that are concluded should provide for expanding the practice of container and packet shipments.

12. Ministries, departments and USSR Gossnab organs shall:

devise and implement measures to ensure the timely conclusion of economic contracts for the 12th Five-Year Plan, to strengthen their role in increasing the effectiveness of economic activity and in meeting national economic targets under this five-year plan; proceed from the necessity of combining the interests of enterprise and organization collectives with the interests of the entire nation; check more closely to see to it that the concluded contracts are legal;

ensure that subordinate enterprises and organizations keep a proper record of the concluded contracts and submit reports under the established procedure at the scheduled time on concluded contracts using forms 1-dogovory [1-contracts] and 1-dogovory (snab) [1-contracts (supp.)] approved by the USSR Central Statistical Administration. Systematically analyze data on the course of fulfillment of contracts and take measures in good time to eliminate shortcomings detected in this work;

devise and implement measures to ensure that enterprises and organizations fulfill delivery targets and obligations precisely and on schedule; continuously apply legislatively established measures of liability for the breach of delivery discipline.

13. State boards of arbitration and the boards of arbitration of ministries and departments shall:

in order to resolve disputes arising in the process of concluding economic contracts for the 12th Five-Year Plan, promote the effective use of economic contracts in the interests of securing the most complete satisfaction of the needs of the national economy, improving product quality, and accelerating the introduction of advances of scientific-technical progress into production;

ensure uniformity and the precise application of legislation and the protection of the rights and lawful interests of enterprises and organizations;

step up the struggle against violations of the deadline for concluding contracts and the avoidance of the formalization of contractual relationships; initiate proceedings in such cases at their own initiative against enterprises permitting such violations; continuously apply legislative measures to exert pressure by means of property;

make a basic evaluation of the actions of leaders of enterprises and organization-suppliers, aimed at reducing the volume of products to be delivered and at rearranging delivery dates compared with those specified in plan targets to the detriment of the customers' interests;

upon ascertaining the untimely issuance of plan acts that serve as the basis for concluding contracts, inform the appropriate higher organs so that they

may take immediate action to correct the situation and call the guilty parties personally to account; react promptly to instances in which production plans that are not balanced with material-technical supply are conveyed to enterprise-suppliers, in which warrants (counter-warrants) are issued without regard to established minimum shipping norms and other violations of the procedure for planning deliveries. In the resolution of disputes, shall not take into account corrections of production and delivery plans downward by ministries and departments in violation of the established order; shall inform higher arbitration organs of such facts so that they may take appropriate measures;

carefully analyze the content of concluded contracts in full volume and their correspondence to the demands of existing legislation and plan targets; invalidate the terms of economic contracts that contradict legislation or that are based on state administrative acts that do not accord with legislative requirements or that limit the liability of parties for the non-performance or improper performance of contractual obligations; if necessary, shall strive to incorporate in contracts additional terms aimed at improving product quality and accelerating the introduction of the advances of scientific-technical progress;

systematically analyze and summarize the materials of disputes arising in the process of concluding economic contracts; upon detecting violations and shortcomings in contract work, shall report them to ministries, departments, economic managers and in the appropriate cases to party and Soviet organs; make specific proposals on the elimination of such violations and shortcomings; raise the question of calling guilty officials to account as provided in the law and recover damages from them;

together with ministries, state committees and departments, devise and implement effective measures aimed at improving work pertaining to the conclusion of economic contracts and raising the role of contracts in the national economy.

14. In September-October 1985, gosnabs of union republics and main territorial administrations of USSR Gosnab shall, together with state arbitration organs, conduct meetings devoted to the conclusion of economic contracts on the delivery of producer goods under the 12th Five-Year Plan, which shall examine practical questions pertaining to the organization of this work on the basis of the present Guidelines.

#### FOOTNOTE

1. Associations, enterprises and organizations are hereafter referred to as "enterprises and organizations."

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